

ORIGINAL

NEW APPLICATION



0000093557

BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

KRISTEN K. MAYES, Chairman

GARY PIERCE

PAUL NEWMAN

SANDRA D. KENNEDY

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AZ CORP COMMISSION  
DOCKET CONTROL

G-02527A-09-0088

IN THE MATTER OF THE APPLICATION OF )  
GRAHAM COUNTY UTILITIES GAS DIVISION )  
INC. FOR A RATE INCREASE )  
\_\_\_\_\_ )

DOCKET NO. G-02527A-09-

Arizona Corporation Commission

**DOCKETED**

FEB 26 2009

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Graham County Utilities, Inc. ("GCU") in support of its application states as follows:

1. GCU is a nonprofit cooperative corporation that provides gas distribution service to approximately 5,061 customers in Graham County, Arizona.

2. GCU is a Class B Utility as defined by A.A.C. R14-2-103, filed herewith and incorporated by reference, are the Schedules, Direct Testimony of Mr. John V. Wallace and other materials in support of its application. GCU stipulates that Commission may use its original cost less depreciation rate base for determining a return on fair value in this application. GCU's rate relief is premised upon its Times Interest Earned Ratio ("TIER") and Debt Service Coverage Ratio ("DSC").

3. By this Application, GCU seeks a revenue increase of approximately 14 percent over current rates. The proposed revenue increase would produce a rate of return of 13.26 percent on its rate base of \$2,055,868 and would yield an operating margin of \$268,273 after interest expense.

4. The reasons underlying the Company's request for an overall 14 percent increase include GCEC's investment of over \$650,000 in plant improvements and replacements since the end of 2003. Since its last test year GCU has incurred approximately \$800,000 in

1 advances of funds from Graham County Electric Cooperative, Inc. ("GCEC") to fund its  
2 investments in plant improvements.

3 5. In GCU's last rate case, the Commission authorized a 14.26 percent  
4 increase in gross annual revenues based on a test year ending December 31, 2003 (Decision No.  
5 67748, dated April 11, 2005).

6 6. For the 12 months ended September 30, 2008, the test year in this case, the  
7 present rates produced an operating margin deficit or loss of approximately \$114,414 before  
8 interest expense on an adjusted test year basis.

9 7. GCU's proposed \$516,733 increase in revenues produces a positive  
10 operating margin of \$268,273 after interest expense.

11 8. Given the amount of negative margins that GCU is experiencing every  
12 month and GCU's current negative financial position, GCU requests that the Commission  
13 process this application and enter a decision as soon as possible. GCU has purposefully limited  
14 the number of pro forma adjustments it has made in this case in an effort to limit the issues that  
15 may arise in processing its case.

16 WHEREFORE, having fully stated its Application, GCU requests that the  
17 Commission enter its Order approving the requested rate increase, the new rates, fees and  
18 charges set forth in the Application.

19  
20 Further communications and notices concerning this Docket should be directed to:

21 John V. Wallace  
22 GCSECA  
23 120 North 44<sup>th</sup> Street, Suite 100  
24 Phoenix, AZ 85034  
25 Email: [jwallace@gcseca.coop](mailto:jwallace@gcseca.coop)

26 With a copy to:

27 Russ Barney  
28 GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.  
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Pima, Arizona 85543  
Email: [russb@gce.coop](mailto:russb@gce.coop)

1 RESPECTFULLY SUBMITTED this 26<sup>th</sup> day of February, 2009.

2  
3 By  \_\_\_\_\_

4 John V. Wallace  
5 Grand Canyon State Electric Cooperative Assn., Inc.  
6 Consultant for Graham County Electric Cooperative, Inc.  
7  
8  
9  
10  
11

12 **Original** and thirteen (13) copies filed  
13 this 26<sup>th</sup> day of February, 2009, with:

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15 Arizona Corporation Commission  
16 1200 W. Washington  
17 Phoenix, AZ 85007  
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

KRISTEN K. MAYES, Chairman  
GARY PIERCE  
BOB STUMP  
PAUL NEWMAN  
SARAH KENNEDY

IN THE MATTER OF THE APPLICATION OF )  
GRAHAM COUNTY UTILITIES GAS DIVISION )  
INC. FOR A RATE INCREASE )  
 )  
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\_\_\_\_\_ )

DOCKET NO. G-02527A-09-

DIRECT  
TESTIMONY  
OF  
JOHN V. WALLACE  
GRAHAM COUNTY UTILITIES, INC.  
GAS DIVISION

February 26, 2009



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1       **I. INTRODUCTION**

2       Q.     Please state your name address and occupation.

3       A.     My name is John V. Wallace. I am the Director of Regulatory and Strategic Services of  
4             Grand Canyon State Electric Cooperative Association ("GCSECA"). I am filing  
5             testimony on behalf of Graham County Utilities, Inc. ("GCU" or "Cooperative").  
6

7       Q.     Please describe your professional qualifications and experience.

8       A.     I have been the Director of Regulatory and Strategic Services since August 1, 2000. In  
9             this position, I am responsible for preparing rate, financial and other utility related  
10            analysis and testimony for the GCSECA member Arizona Electric Cooperatives. Before  
11            I accepted a position with GCSECA, I worked for the Arizona Corporation Commission  
12            ("ACC") for approximately 10 years. While working for the ACC, I held a number of  
13            positions within the Accounting and Rates Section of the Utilities Division of the ACC;  
14            the last of these positions was Manager, Revenue Requirements Analysis. In this  
15            capacity, I was responsible for managing six analysts and preparing staff reports and  
16            testimony on Certificate of Convenience and Necessity ("CC&N"), financing, rate and  
17            other utility matters. In addition to my work experience, I have a Masters Degree in  
18            Business Administration from the University of North Dakota.  
19

20      Q.     On whose behalf are you appearing in this proceeding?

21      A.     I am appearing on behalf of the applicant, GCU Gas Division. GCU Gas Division is a  
22             nonprofit cooperative corporation that provides gas service to approximately 5,061  
23             customers in Graham County, Arizona.  
24

25      Q.     Was this testimony prepared by you or under your direction?

26      A.     Yes, it was.  
27  
28

1 Q. What exhibits are you sponsoring in this case?

2 A. In addition to the schedules attached to this testimony, I am responsible for the  
3 preparation of all the test year materials contained in GCU's filing, except for the  
4 historical financial statements prepared by GCU and the report of its Certified Public  
5 Accountants. I will be referring to these materials from time to time throughout my  
6 direct testimony.

7  
8 Q. What areas does your testimony address?

9 A. My testimony addresses four primary areas: revenue requirements, cost of service and  
10 class revenue allocations, rate design.

11  
12 Q. Please summarize your recommendations.

13 A. The main reason underlying the Company's request for an overall 13.72 percent increase  
14 in revenues is due to the fact that since it's last Test Year ending December 31, 2003,  
15 GCU has been investing over \$650,000 in plant improvements and replacements. In  
16 addition Graham County Electric Cooperative, Inc. ("GCEC") has completed its new  
17 office building so GCU is receiving an annual allocation of \$75,250 of these costs.  
18 Since February of 2008, GCU has incurred approximately \$790,000 in inter-company  
19 payables due to GCEC to fund its investments in plant improvements. As a result, the  
20 amount of GCU's projected debt service payments (principle and interest) has increased  
21 significantly. GCU has also experienced increases in its other expenses such as salaries  
22 and benefits and purchased gas since its last Test Year. An increase of this magnitude is  
23 needed to eliminate negative margins produced by the current rates, to provide adequate  
24 interest and debt service coverage and to provide the internally generated cash flows  
25 required to support the utility's on-going operations and plant improvements.

26  
27 Q. What is the relationship between GCU and GCEC?

28 A. GCEC manages the operations of GCU's Gas and Water Divisions pursuant to an

1 operations and management agreement. GCEC and GCU Gas and Water are operated as  
2 separate and distinct entities from each other. Nevertheless, the same members (6 out of  
3 9) serve on the Boards of Directors of both GCU and GCEC. GCU's employees have  
4 offices in GCEC's building. GCEC will also advance funds to GCU when necessary.  
5

6 Q. Please explain Schedule A-2 of the filing.

7 A. Schedule A-2, summarizes operating results at present and proposed rates for the 12  
8 months ended September 30, 2008, the test year in this case. The present rates produced  
9 an operating margin deficit or loss including interest expense of approximately \$248,000  
10 on an adjusted test year basis. The proposed \$517,000 increase in revenues produces a  
11 positive operating margin of \$268,273.  
12

13 Q. Do you view the indicated increase in revenues of approximately 14 percent at proposed  
14 rates as a reasonable in this case?

15 A. Yes. Cooperatives' revenue requirements are normally determined by the level of  
16 operating expenses plus an additional amount of margin for interest coverage. GCU has  
17 used an Operating Times Interest Earned Ratio ("TIER") of 3.0 (Debt Service Coverage  
18 Ratio of 2.27) to determine the required level of revenues and revenue increase. Since  
19 GCU's amount of interest on long term debt has and will continue to increase from its  
20 previous Test Year amount, it is necessary for GCU to use an Operating TIER of 3.0  
21 (DSC of 2.27) to set its revenue requirement. Finally, an Operating TIER of 3.0 is  
22 necessary to maintain and increase GCU's equity level eventually to 30 percent which  
23 has been required by the Commission Decision No. 67748, dated April 11, 2005.  
24

25 Q. What factors besides its TIER did GCU use to determine its revenue requirement in this  
26 case?

27 A. GCU has determined its proposed revenue requirement by considering the amount of  
28 revenue necessary to maintain an Operating TIER of 3.0, to maintain a positive cash flow

1 after operating expenses, to fund plant improvements and maintenance, to maintain its  
2 equity level and to fund contingencies. The requested increase in this case is reasonable  
3 given its recent history of negative margins, and the need to produce positive cash flows  
4 and maintain its equity level. GCU has considered and balanced these financial  
5 considerations with a reasonable overall increase in revenues for its members.  
6 Consistent with Decision No. 69245, GCU should be able to stabilize or perhaps steadily  
7 increase its equity ratio using an Operating TIER of 3.0 even given its forecast for higher  
8 margin losses in 2009.

9  
10 Q. Please summarize your rate design recommendations.

11 A. Considering the Cost of Service Study ("COSS") prepared for the case and other factors,  
12 I have based the rate design on customer class increases such that the residential class  
13 receives a slightly higher percentage of revenue increase than the approximately 14  
14 percent overall increase in revenues due to the fact that according to the COSS, the  
15 commercial class is already paying its fair share and the irrigation class is very price  
16 sensitive.

17  
18 I am recommending a \$4.50 increase from \$10.50 to \$15.00 in the residential service  
19 availability charge and a \$5.50 increase in the monthly minimum (service availability)  
20 charges for the commercial and irrigation classes.

21  
22 The per therm charges for each class were increased to a level that would result in the  
23 higher revenue increase for the residential class than the approximate 14 percent increase  
24 in customer class revenues for the reasons stated above.

25  
26 I am recommending increases in the Establishment of Service charges for during and  
27 after business hours. In addition, GCU is recommending that a \$5 minimum late payment  
28 fee apply to reduce the number of delinquent bills.

1 The present and proposed rate and charges are detailed on Schedule H-3. The proposed  
2 Service Charges are contained within GCU's proposed tariffs.

3  
4 GCU recommends that the Commission approve its proposed line extension policy that  
5 eliminates the existing 150 feet of free footage.

6  
7 Q. Is GCU requesting that the Commission process its application and enter a decision as  
8 soon possible?

9 A. Yes, it is. Given the amount of negative margins that GCU is experiencing every month  
10 and GCU's current negative financial position, GCU requests that the Commission  
11 process this application and enter a decision as soon as possible. GCU has purposefully  
12 limited the number of pro forma adjustments it has made in this case in an effort to limit  
13 the issues that may arise in processing its case.

14  
15 **II. REVENUE REQUIREMENTS**

16  
17 Q. Please explain the original cost rate base (OCRB) calculation shown on Schedule B-1.

18 A. I am recommending that the Commission adopt an OCRB of \$2,055,868 for GCU. In an  
19 effort to limit the potential issues that may arise during the processing of this case, I have  
20 made no pro-forma adjustments to Rate Base, Plant-in-Service, Accumulated Provision  
21 for Deprecation, etc.

22  
23 I have subtracted \$67,270 of customer deposits from the rate base. I have added the  
24 construction work in progress that is currently Plant-in-Service, materials and supplies  
25 and prepayments to GCU's rate base.

26  
27 Q. Why hasn't GCU included its Reconstruction Cost New less Depreciation (RCND)  
28 information (Schedules B-3 and B-4) in its application?

1 A. GCU stipulates that the Commission may use its original cost data for the calculation of a  
2 rate of return on fair value for this proceeding. Therefore, the RCND information  
3 contained on Schedules B-3 and B-4 is unnecessary for a determination in this matter.  
4

5 Q. Why hasn't a provision for working capital (Schedule B-5) been included in the  
6 development of rate base?

7 A. The Cooperative decided not to incur the additional expense required to conduct a  
8 lead/lag study. Accordingly, no cash working capital allowance is sought in this case.  
9

10 Q. Please explain Schedule C-1 of the filing.

11 A. Schedule C-1 shows the actual and adjusted operating income statement for the test year.  
12 As described on Schedule C-2, actual test year results were adjusted as follows:

13 A. Adjustment A. eliminates the \$16,619 of amortization of the acquisition adjustment  
14 associated with GCU's original purchase of the gas system from the depreciation and  
15 amortization expenses. This adjustment was adopted in GCU's previous rate case  
16 Decision No. 67748, dated April 11, 2005.  
17

18 B. Adjustment B. increased depreciation and amortization expense by \$7,183 to allow  
19 depreciation on the acquisition adjustment assets that were charged to plant per  
20 Decision No. 58437. This adjustment was adopted in GCU's previous rate case  
21 Decision No. 67748, dated April 11, 2005.  
22

23 C. Adjustment C. increased Administrative and General Expense by \$835 for an increase  
24 in ACC assessments due to the revenue increase being proposed in this case.  
25

26 D. Adjustment D. decreased Interest Expense-Other by \$15,821 to account for the fact  
27 that GCU will be paying off the due to due from loan from GCEC. This adjustment  
28 also recognizes \$47,780 of additional interest expense on the new long-term debt

1 from CFC.

2  
3 E. Adjustment E. increases Sales of Gas by customer class by a total of \$144,749,  
4 decreases Fuel Cost Under-billed by a total of \$144,749 to reclassify the Purchased  
5 Gas Fuel Adjustor Revenues.

6  
7 F. Adjustment F. increases A&G expense by \$75,250 to annualize GCU's allocation of  
8 the new office building.

9  
10 G. Adjustment G. increases several expenses by a total of \$25,576 to annualize increases  
11 in payroll, benefits and pensions costs.

12  
13 H. Adjustment H. increased Rate (Case) Related Expense by \$4,000 for actual and  
14 estimated rate case expenses that will be incurred in the preparation and completion  
15 of this case. I have estimated the total amount of rate case expense of \$12,000 in this  
16 case. I then amortized this expense over a three-year period given the projected  
17 growth in GCU's service territory and the associated plant investments. Based on  
18 these projections, GCU may need to file for a rate case in a few years.

19  
20 These adjustments reduce operating margins for the test year by \$80,404 resulting in an  
21 adjusted deficit in operating margins of \$114,414 before interest on long-term debt on  
22 Schedule C-1.

23  
24 **III. COST OF SERVICE AND RATE DESIGN**

25  
26 Q. Why should gas rates be based upon cost of service?

27 A. Cost of service is an important criterion in the development of revenues by class of  
28 consumer and the development of rates that will produce those revenues. If rates are not



1 cost based, the inevitable results may create subsidies among the classes of consumers  
2 and consumers within a class. This is not only perceived as inequitable, but may result in  
3 distorted consumer decisions concerning the use of utility services. Other factors, such as  
4 customer class price sensitivity, continuity, simplicity and stability are valid  
5 considerations in the rate design process and had to be considered given GCU's  
6 circumstances.

7  
8 Q. Did you prepare the class cost of service analysis contained in this filing?

9 A. Yes. The study was prepared to provide guidance in setting class revenue targets and  
10 designing the rates required to meet these targets. The costing methodology used is  
11 essentially the same as that used in GCU's last rate proceeding.

12  
13 Q. Would you briefly describe the approach used to develop the study?

14 A. The basic method used in the study is commonly known as the embedded or average cost  
15 method as contrasted with the marginal cost method. This method, properly applied,  
16 produces a guide for ratemaking purposes.

17  
18 The initial step was to establish, for costing purposes, consumer classes with similar  
19 usage characteristics. For the purposes of present rates these classes are: residential  
20 commercial, etc. The next step in the study was to classify all elements of rate base and  
21 operating expenses as demand-related, usage or commodity-related or customer-related.  
22 The results of this process are shown on Schedules G-6 and G-7. The final step in the  
23 analysis was to allocate rate base and operating expenses to each class of consumer. The  
24 results of these allocations are shown on Schedules G-1 and G-2. The class allocation  
25 factors used in the study are provided on Schedule G-8.  
26  
27  
28

1 Q. Please summarize the results of your study.

2 A. The results of my study, at present and proposed rates, are summarized on Schedules G-1  
3 and G-2, respectively. At present rates, the overall system rate of return (ROR) on rate  
4 base is a negative 5.57 percent. All classes are producing negative returns with the  
5 exception of the commercial class. At present rates, the residential class has a negative  
6 return of 8.77 percent. The irrigation class has a negative return of 26.75 percent. The  
7 commercial class has a positive return of 9.92.

8  
9 Q. Please explain the rate of return index concept.

10 A. The last line of Schedule G-1 shows the ratio of actual to equal return revenues (AERR  
11 ratio). A class with a ratio of 1 is paying the amount of revenue that results in ROR equal  
12 to the system ROR. When the system ROR is negative, when the AERR ratio is below  
13 1.00, this indicates that a class's revenues and margins are sufficient to recover the system  
14 rate of return. When the AERR ratio is above 1.00, this indicates that a class's revenues  
15 and margins result in a return lower than the system rate of return.

16  
17 In GCU's case, the residential and irrigation classes currently have an AERR ratio above  
18 1.00. The commercial class AERR ratio is below 1.00.

19  
20 Q. Typically the cost of service study is used as the basis to allocate revenues among  
21 customer classes. Did you use the cost of service study to allocate revenues to customer  
22 classes?

23 A. Yes. However, GCU's circumstances merit a deviation from strictly using the cost of  
24 service study to set rates for the reasons stated in my testimony.

25  
26 Q. How did you allocate revenues to the customer classes?

27 A. I have based the rate design on customer class increases such that the residential class  
28 receives a slightly higher percentage of revenue increase than the approximately 14

1 percent overall increase in revenues due to the fact that according to the COSS, the  
2 commercial class is already paying its fair share and the irrigation class is very price  
3 sensitive. The residential, irrigation, commercial class revenues were increased by  
4 approximately 16 percent, 5.5 percent and 4.3 percent, respectively as shown on Schedule  
5 H-1.

6  
7 Q. What monthly minimum system (service availability) charges are you recommending by  
8 customer class and why?

9 A. I am proposing increases to the present monthly minimum service charges for the  
10 various classes. I am recommending the residential class service availability charge be  
11 increased from \$10.50 to \$15.00; the irrigation class be increased from \$17 to \$22.50;  
12 and the commercial class be increased from \$18 to \$23.50. I am recommending that  
13 remaining revenue requirement be collected by increasing the per therm rates for each  
14 class. (Refer to Schedule H-3)

15  
16 I am recommending the monthly service availability charges be increased because of the  
17 following reasons. The first is the majority of the GCU's distribution related costs are  
18 fixed and do not vary with the number of therms used. The second reason is that using  
19 fixed charges to collect fixed costs helps to alleviate cash flow shortages and surpluses  
20 that result from a rate design that is heavily weighted toward a per therm charge.  
21 Changes in the number of therms sold after the Test Year due to weather and other  
22 factors can have a dramatic affect on a utilities' financial condition. GCU's fixed costs  
23 for serving each customer class are significantly higher than GCU's monthly minimum  
24 service charges. In addition, GCU will collect a more even revenue stream during  
25 summer versus winter months.  
26  
27  
28

1 Q. How were the per therm charges determined in each customer class?

2 A. The residential class receives a slightly higher percentage of revenue increase than the  
3 approximately 14 percent overall increase in revenues due to the fact that according to the  
4 COSS, the commercial class is already paying its fair share and the irrigation class is very  
5 price sensitive.  
6

7 Q. What therm rate is GCU recommending for the residential customer class?

8 A. I am recommending the per therm rate for residential service be increased from \$0.82500  
9 to \$1.13912. The monthly bill for a residential customer who uses 36 therms will  
10 increase by \$9.42 (20.21%), from \$46.59 to \$56.01. Residential customers who use more  
11 (less) than 36 therms per month will experience a lower (higher) percent increase due to  
12 the level of the higher percentage increase in the monthly service availability charge  
13 versus the therm charge. (Refer to Schedule H4, Page 1 of 3.)  
14

15 Q. Please explain GCEC's proposed rate design and billing impacts for irrigation customers.

16 A. I am recommending the per therm rate for irrigation service be increased from \$0.69000  
17 to \$0.88749. The monthly bill for an irrigation customer who uses approximately 59  
18 therms will increase by \$6.68 (9.79%), from \$68.19 to \$74.86. Irrigation customers who  
19 use more (less) than 59 therms per month will experience a lower (higher) percent  
20 increase due to the level of the higher percentage increase in the monthly service  
21 availability charge versus the therm charge. (Refer to Schedule H-4, page 2 of 3.)  
22

23 Q. What are the potential impacts to GCU if a higher per therm rate design for irrigation  
24 customers is adopted by the Commission?

25 A. The irrigation customers are price sensitive and will convert their pumps to electric  
26 power or decide not to pump any water. If this occurs, then GCU will lose all of the  
27 revenue from these irrigation customers which will result in higher rates for GCU's  
28 remaining customers.

1 Q. What therm rate is GCU recommending for the commercial class?

2 A. I am recommending the per therm rate for commercial service be increased from \$0.831  
3 to \$1.08660. Under GCU's proposed rates, the monthly bill for a commercial customer  
4 who uses 289 therms will increase by \$28.05 (9.06%), from \$309.48 to \$337.53.  
5 Commercial customers who use more (less) than 289 therms per month will experience a  
6 lower (higher) percent increase due to the level of the higher percentage increase in the  
7 monthly system charge versus the therm charge. (Refer to Schedule H4, page 3 of 3.)  
8

9 Q. What changes to service charges is GCU recommending?

10 A. I am recommending that the Establishment of Services charges for regular business hours  
11 be increased from \$20 to \$30, Establishment of Services after hours be increased from  
12 \$35 to \$50 and after hours service calls that are caused by customers be increased from  
13 \$50 to \$70. These service charges should be increased to reflect the increased costs  
14 (labor, materials, overheads, etc.) of providing those services.  
15

16 In addition, to decrease the number of delinquent bills, GCU is recommending a \$5  
17 minimum late payment charge be approved along with the current late charge of 1.5 %  
18 The \$5 minimum charge or 1.5 % late charge, whichever is greater would be paid by all  
19 customers who do not pay their bills by the deadline. GCU does not believe that the  
20 current late charge of 1.5 % is high enough to deter customers from paying their bills late.  
21

22 **IV. PURCHASED GAS BASE COST AND FUEL ADJUSTOR**

23 Q. What are your recommendations regarding the existing purchased gas base cost?

24 A. The existing purchased gas base cost of \$0.59056 per therm went into effect by Decision  
25 No. 67748 (GCU's previous rate case). In this case, the Test Year as Adjusted level of  
26 purchased gas expense is \$2,398,790 divided by the total number of therms sold of  
27 2,933,418 equals a base cost of purchased gas of \$0.81775. I am recommending the  
28 existing \$0.59056 base cost of purchased gas be increased to \$0.81775. This will result

1 in GCU's Purchased Gas Fuel Adjustor of approximately \$0.22719 to be set to zero. This  
2 \$0.22719 will be reflected as an increase in its base cost of Purchased Gas on a going  
3 forward basis.

4  
5 **V. Line Extensions**

6 Q. Please discuss GCU's line extension policy that was approved in Decision No. 58437  
7 dated October 18, 1993.

8 A. In compliance with rate case Decision No. 58437, GCU filed a line extension policy that  
9 set the maximum amount of free main and/or service line footage, limited to pipe sizes of  
10 1 inch and smaller, at a total of 150 feet.

11  
12 Q. Has GCU been following the line extension policy approved in Decision No. 58437 dated  
13 October 18, 1993?

14 A. GCU discovered during the preparation of this rate case that its employees were not  
15 correctly following its line extension policy. GCU does not know the date that it began  
16 incorrectly charging customers for line extensions. Shortly after making this discovery,  
17 in January of 2009, GCU instructed all of its employees to begin following GCU's line  
18 extension policy that was approved in Decision No. 58437.

19  
20 Q. How have GCU's employees been treating line extensions?

21 A. GCU's employees have been crediting each customer a maximum dollar amount of \$200  
22 for each line extension rather than the maximum free footage of 150 feet. GCU believes  
23 that the \$200 amount was the approximate cost of a 150 foot line extension at the point in  
24 time which it began to incorrectly charge customers for line extensions. Consequently,  
25 GCU has been charging customers a Contribution in aid of Construction ("CIAC") for a  
26 portion of the costs of a line extension that were over \$200. Only customers with line  
27 extensions that cost more than \$200 were affected by GCU not following its line  
28 extension policy.

1 Q. Does GCU know the date that it began to incorrectly charge its customers for line  
2 extensions?

3 A. GCU does not know the date that it began incorrectly charging customers for line  
4 extensions. Since the date of Decision No. 58437, GCU's number of customers has  
5 increased from approximately 3,600 to 5,061. Without reviewing hundreds of line  
6 extension estimates/agreements, GCU can not exactly determine the date it began to  
7 incorrectly charge, the total amount that customers have been over-charged or the amount  
8 each customer has been overcharged.

9  
10 Q. Can GCU estimate the number of customers and the amounts that have been incorrectly  
11 charged for line extension costs since its last test year?

12 A. Yes. GCU has this information in an electronic file. Before this date, if this information  
13 is available, it will most likely only be available from written records. GCU concluded  
14 that it would be reasonable to review the line extensions that had occurred since its last  
15 rate case that had a Test Year ending December 31, 2003.

16  
17 Q. What is GCU's estimate of the number of customers and the amounts that have been  
18 incorrectly charged for line extension costs since its last test year?

19 A. GCU has estimated that since January 1, 2004, that it over-charged customers who  
20 needed line extensions by a total amount of \$226,765. Since this date, GCU has  
21 completed approximately 600 line extensions. On average, approximately \$500 is owed  
22 to approximately 452 individual customers/developers that were over-charged.

23  
24 Q. Did GCU collect the complete cost of the line extension from the customers who were  
25 over-charged?

26 A. No it did not. Since January 1, 2004, GCU has only collected 33 percent of the costs  
27 associated with line extensions from customers and has had to fund additional line  
28

1 extension costs of \$597,454, despite the fact that it over-charged customers for line  
2 extensions.

3  
4 Q. What is the financial impact to GCU and members of having charged this \$226,765  
5 amount to customers who needed line extensions?

6 A. Regarding the financial impact to the existing customers that both did and did not have  
7 extensions, collecting a higher amount of the costs associated with line extensions has  
8 reduced the amount of debt that GCU must borrow by \$226,765 which benefited all of  
9 GCU's existing customers that did and did not require line extensions. In addition, this  
10 \$226,765 amount would have been considered plant in this case and would have  
11 depreciation expense associated with it that all customers would pay through future rates.  
12 As a result, GCU was not only able to mitigate the need for a rate increase in previous  
13 years but also has mitigated the amount of revenue increase needed in this case.

14  
15 Q. Is GCU able to refund the total amount to those customers that were over-charged since  
16 the date it began incorrectly charging customers for line extensions?

17 A. Without reviewing the hundreds of line extension estimates/agreements, GCU can not  
18 exactly determine the total amount and what should be refunded to each individual  
19 customer/developer that was over-charged. In some cases, GCU may have only charged  
20 a small amount over the \$200 credit it gave to customers. More recent line extensions  
21 cost a significantly higher amount than older line extensions because of increases in  
22 material and labor charges. These factors make it unfair for GCU to refund an  
23 average/same amount to all customers. GCU would be refunding these amounts using the  
24 general funds of GCU which will further impact the negative cash-flows of GCU. GCU  
25 would also need to reclassify the amount over-charged from CIAC to Plant-in-Service,  
26 calculate a depreciation component and borrow additional funds with an associated  
27 interest component for the refund that would be paid by all customers on this reclassified  
28



1 CIAC. All of these factors make it difficult for GCU to propose a refunding strategy that  
2 is reasonable and fair.

3  
4 Q. In the future, what steps will be taken by the management of GCU to ensure all of the  
5 GCU's Tariffs and Rules and Regulations are being followed by GCU employees?

6 A. Once the Commission has made a determination in this case, GCU's management intends  
7 to hold a training event with its employees that will cover all of the GCU's Tariffs and  
8 Rules and Regulations. These training events will be held periodically and as new  
9 employees are hired.

10  
11 Q. Has GCU recommended that the 150 feet of free footage be eliminated in its proposed  
12 line extension policy?

13 A. Yes it has. GCU recommends that the Commission approve its proposed line extension  
14 policy that eliminates the 150 feet of free footage. This policy will require all new  
15 customers who need line extensions to pay the total cost of these extensions in the form  
16 of a CIAC except for one-half of associated overhead costs. GCU will continue to pay  
17 one-half of over-head costs because, as discussed in more detail below, GCU is  
18 concerned that customers and developers will not elect to install gas service in homes if  
19 the cost to connect gas service is too high.

20  
21 **VI. HOOK UP FEES**

22 Q. Has GCU analyzed and considered the use hook-up fees as a way to off-set the  
23 incremental costs associated with the customer growth in its service territory?

24 A. Yes, it has. GCU has analyzed several different levels of hook up fees and their effects  
25 on GCU's revenue requirement.

26

27

28

1 Q. Is GCU recommending the use hook-up fees as a way to off-set the incremental costs  
2 associated with the customer growth in its service territory?

3 A. No, it is not. Currently GCU is experiencing no (or low) growth in number of customers.  
4 Unlike the water division, GCU Gas Division will also not require the investment in  
5 resizing back bone plant like gas mains to serve new developments and customers. In the  
6 future, the main portion of GCU's mains, service lines and meters will be recovered by  
7 GCU's proposed line extension policy and is not associated with expansion of GCU's  
8 back bone distribution system such as resizing existing mains. Given there are a limited  
9 number of developers and developments in GCU's service territory, GCU is also  
10 concerned that if it charges a hook-up fee to receive gas service, that developers will elect  
11 not to plumb houses for gas service (provide homes that are all electric service) and  
12 remove a homeowner's choice to have gas service. Unlike electric and water service,  
13 developers and homeowners can choose gas service as an optional service. In  
14 conclusion, GCU's management and Board have concluded that developers and  
15 customers may not install gas service in its service area with implementation of a hook-  
16 up fee, especially due to the fact that these developers and customers will already bear the  
17 additional cost of line extensions if the ACC approves GCU's recommendation to  
18 eliminate the free footage for line extensions.

19  
20 Q. Does that conclude your direct testimony?

21 A. Yes, it does.  
22  
23  
24  
25  
26  
27  
28

## INDEX OF SCHEDULES

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For Years Ended September 30, 2008, 2007, 2006, 2005, 2004

**SCHEDULE A-1**

PAGE 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPUTATION OF INCREASE IN  
GROSS REVENUE REQUIREMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

<b>Line</b>		<b>Present</b>	<b>Proposed</b>
<b>No.</b>	<b>Description</b>	<b>Rates</b>	<b>Rates</b>
		<b>( b )</b>	<b>( d )</b>
1	Revenues	3,766,051	4,282,784
2	Operating Expense and Interest	4,014,511	4,014,511
3	Operating Margins	(248,460)	268,273
4	Non-Operating Margins	11,900	11,900
5	Operating TIER	(0.85)	3.00
6	Net TIER	(0.76)	3.09
7	Rate Base ( a )	2,055,868	2,055,868
8	% Return on Rate Base	-11.51%	13.63%
9	Requested Increase in Revenues ( c )		516,733
10	% Increase		13.72%
		<b>( c )</b>	<b>( c )</b>
	RESIDENTIAL	2,759,417	3,197,875
	IRRIGATION	5,493	5,790
	COMMERCIAL	979,622	1,021,355
	<b>TOTAL</b>	<b>3,744,531</b>	<b>4,225,020</b>
	OTHER GAS REVENUE	21,520	57,764
		<b>3,766,051</b>	<b>4,282,784</b>

**SUPPORT SCHEDULES:**

( a ) B-1      ( c ) H-1  
( b ) C-1      ( d ) A-2

**GRAHAM COUNTY UTILITIES, INC. - GAS  
SUMMARY RESULTS OF OPERATIONS  
GROSS REVENUE REQUIREMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

Line No.	Description	<u>PRIOR YEARS</u>		<u>Test Year Ended 9/30/08</u>		<u>Projected Year</u>	
		<u>Ended</u>	<u>Ended</u>	<u>Actual</u>	<u>Adjusted</u>	<u>Present</u>	<u>Proposed</u>
		<u>9/30/2006</u>	<u>9/30/2007</u>				
		<u>(a)</u>	<u>(a)</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(c)</u>
1	Operating Revenues	3,688,001	3,655,929	3,766,051	3,766,051	3,766,051	4,282,784
2	<u>Operating Expenses:</u>						
3	Purchased Gas	2,425,984	2,293,478	2,398,790	2,398,790	2,398,790	2,398,790
4	Distribution - Operation	184,245	220,270	240,331	246,294	246,294	246,294
5	Distribution - Maintenance	188,017	227,736	272,683	278,580	278,580	278,580
6	Customer Accounts	208,480	225,183	260,328	271,842	271,842	271,842
7	Admin. & General Expenses	254,725	256,672	380,206	462,493	462,493	462,493
8	Depreciation & Amortization	110,613	117,205	129,506	120,070	120,070	120,070
9	Property Taxes	35,976	35,293	34,376	34,376	34,376	34,376
10	Tax Expense - Other	31,839	44,081	53,893	53,893	53,893	53,893
11	Interest on Long-Term Debt	91,511	90,171	86,266	134,046	134,046	134,046
12	Interest Expense - Other	43,444	25,167	29,948	14,127	14,127	14,127
13	Other Deductions					-	
14	<b>Total</b>	<b>3,574,833</b>	<b>3,535,257</b>	<b>3,886,327</b>	<b>4,014,511</b>	<b>4,014,511</b>	<b>4,014,511</b>
15	<b>Operating Margins</b>	<b>113,168</b>	<b>120,672</b>	<b>(120,276)</b>	<b>(248,460)</b>	<b>(248,460)</b>	<b>268,273</b>
16	Non-Operating Margins	19,629	12,951	11,900	11,900	11,900	11,900
17	<b>Net Margins</b>	<b>132,796</b>	<b>133,623</b>	<b>(108,376)</b>	<b>(236,560)</b>	<b>(236,560)</b>	<b>280,173</b>
18	Therms Sold	2,615,960	2,961,809	2,933,418	2,933,418	2,933,418	2,933,418
19	Utility Plant Additions	148,733	187,118	320,109	320,109	320,109	320,109
20	Average No. of Customers	4,859	4,962	5,060	5,060	5,060	5,060
21	<b>Times Interest Earned (Tier)</b>	<b>2.45</b>	<b>2.48</b>	<b>(0.26)</b>	<b>(0.76)</b>	<b>(0.76)</b>	<b>3.09</b>
22	<b>Debt Service Coverage (DSC)</b>			<b>0.55</b>	<b>0.03</b>	<b>0.03</b>	<b>2.27</b>

**SUPPORTING SCHEDULES:**

(a) E-2 (b) C-1 (c) F-1

**SCHEDULE A-3**

PAGE 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**SUMMARY OF CAPITAL STRUCTURE**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>PRIOR YEARS</b>		<b>TEST YEAR</b>	<b>PROFORMA</b>
	<b>9/30/2006</b>	<b>9/30/2007</b>	<b>9/30/2008</b>	<b>9/30/2008</b>
	<b>(a)</b>	<b>(a)</b>	<b>(a)</b>	<b>(b)</b>
Short-Term Debt	-	177,018	750,751	-
Long-Term Debt	1,404,676	1,278,142	1,128,336	1,932,181
Total Debt	1,404,676	1,455,160	1,879,087	1,932,181
Margins And Equity	127,979	262,338	153,912	153,912
Total Capital	1,532,655	1,717,498	2,032,999	2,086,093
Capitalization Ratios: (%)				
Short-Term Debt	0.00%	10.31%	36.93%	0.00%
Long-Term Debt	91.65%	74.42%	55.50%	92.62%
Total Debt	91.65%	84.73%	92.43%	92.62%
Margins And Equity	8.35%	15.27%	7.57%	7.38%
	100.00%	100.00%	100.00%	100.00%
Weighted Cost Of				
Short-Term Debt	6.39%	7.04%	5.30%	0.00%
Weighted Cost Of				
Long-Term Debt	6.75%	7.04%	6.76%	6.78%

**SUPPORTING SCHEDULES:**

(a) E-1

(b) D-1

16,156	77,955
160,862	28,050

**SCHEDULE A-4**

PAGE 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
CONSTRUCTION EXPENDITURES AND GROSS UTILITY PLANT IN SERVICE  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

<u>YEAR</u>	<b>NET PLANT ADDITIONS ( a )</b>	<b>GROSS UTILITY PLANT IN SERVICE</b>
Test Year Ended 12/31/03		3,023,277
Test Year Ended 9/30/04	68,598	3,091,875
Test Year Ended 9/30/05	109,923	3,201,798
Test Year Ended 9/30/06	148,733	3,350,531
Test Year Ended 9/30/07	187,118	3,537,649
Test Year Ended 9/30/08 ( b )	320,109	3,857,758
Projected Year Ended 9/30/09	135,000	3,992,758
Projected Year Ended 9/30/010	135,000	4,127,758
Projected Year Ended 9/30/11	135,000	4,262,758

**SUPPORT SCHEDULES:**

( a ) F-3

( b ) E-3A

**SCHEDULE A-5**

PAGE 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
SUMMARY STATEMENT OF CASH FLOWS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>PRIOR YEARS</b>		<b>TEST YEAR</b>	<b>PRESENT</b>	<b>PROJECTED</b>
	<b><u>9/30/2006</u></b>	<b><u>9/30/2007</u></b>	<b><u>9/30/2008</u></b>	<b><u>RATES</u></b>	<b><u>PROPOSED</u></b>
<b><u>SOURCES OF FUNDS:</u></b>	<b>( a )</b>	<b>( a )</b>	<b>( a )</b>	<b>( b )</b>	<b>( b )</b>
FROM OPERATIONS	246,224	303,598	511,833	508,416	(121,870)
FROM INVESTING	(139,349)	(176,925)	(397,074)	(397,074)	(397,074)
FROM FINANCING	(106,875)	(116,343)	(125,089)	665,032	665,032
<b>TOTAL SOURCES OF FUNDS</b>	<b>-</b>	<b>10,330</b>	<b>(10,330)</b>	<b>776,374</b>	<b>146,088.20</b>

**SUPPORT SCHEDULES:**

( a ) E-3

( b ) F-2



**SCHEDULE B-1**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
SUMMARY OF ORIGINAL COST**

	<b>ORIGINAL COST RATE BASE</b>
<b><u>DISTRIBUTION:</u></b>	
GROSS PLANT	3,663,281
ACCUMULATED DEPRECIATION	(1,768,202)
<b>NET DISTRIBUTION PLANT</b>	<b>1,895,079</b>
<b><u>GENERAL &amp; INTANGIBLE</u></b>	
GROSS PLANT	194,477
ACCUMULATED DEPRECIATION	(121,157)
<b>NET GENERAL PLANT</b>	<b>73,320</b>
<b><u>TOTAL</u></b>	
GROSS PLANT	3,857,758
ACCUMULATED DEPRECIATION	(1,889,359)
<b>NET TOTAL PLANT</b>	<b>1,968,399</b>
<b><u>PLUS:</u></b>	
CONSTRUCTION WORK IN PROGRESS	101,760
MATERIALS AND SUPPLIES	32,417
PREPAYMENTS	20,562
<b><u>LESS:</u></b>	
CONSUMER DEPOSITS	67,270
	<b>2,055,868</b>

**Recap :**

A-1

**SCHEDULE B-2**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
ORIGINAL COST RATE BASE  
PROFORMA ADJUSTMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>ACTUAL AT END OF TEST YEAR 9/30/08 ( a )</b>	<b>PROFORMA ADJUSTMENTS 9/30/08</b>	<b>ADJUSTED AT END OF TEST YEAR 9/30/08 ( b )</b>
<b><u>DISTRIBUTION:</u></b>			
GROSS PLANT	3,620,759	-	3,620,759
ACCUMULATED DEPRECIATION	(1,768,202)	-	(1,768,202)
NET PLANT	1,852,557	-	1,852,557
<b><u>GENERAL &amp; INTANGIBLE</u></b>			
GROSS PLANT	236,999	-	236,999
ACCUMULATED DEPRECIATION	(121,157)	-	(121,157)
NET PLANT	115,842	-	115,842
<b><u>TOTAL</u></b>			
GROSS PLANT	3,857,758	-	3,857,758
ACCUMULATED DEPRECIATION	(1,889,359)	-	(1,889,359)
NET PLANT	1,968,399	-	1,968,399

**SUPPORT SCHEDULES:**

( a ) E-5

**Recap :**

B-1

**SCHEDULE B-3**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
RCND RATE BASE PROFORMA ADJUSTMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**NOT APPLICABLE**

**SCHEDULE B-4**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
RCND BY MAJOR PLANT ACCOUNTS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**NOT APPLICABLE**

**SCHEDULE B-5**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPUTATION OF WORKING CAPITAL  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

1. MATERIALS AND SUPPLIES INVENTORIES	32,417
2. PREPAYMENTS	20,562
3. LESS: CONSUMER DEPOSITS	67,270
3. TOTAL WORKING CAPITAL ALLOWANCE	<u><u>(14,291)</u></u>

**CUSTOMER CLASSIFICATION**

RESIDENTIAL  
IRRIGATION  
COMMERCIAL  
TOTALS

**ALLOCATION TO  
RATE BASE**

1,688,481
7,447
359,940
<u><u>2,055,868</u></u>

**SUPPORT SCHEDULES:**

(a) E-1

**RECAP SCHEDULES:**

(b) B-1

**SCHEDULE C-1**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
ADJUSTED TEST YEAR INCOME STATEMENT  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	TEST YEAR 9/30/2008 (a)	PROFORMA ADJUSTMENTS (b)	ADJUSTED TEST YEAR
<b><u>REVENUES</u></b>			
RESIDENTIAL	2,658,038	101,379	2,759,417
IRRIGATION	5,263	229	5,492
COMMERCIAL AND INDUSTRIAL	936,481	43,141	979,622
FUEL COST UNDERBILLED	144,749	(144,749)	-
OTHER OPERATING REVENUES	21,520	-	21,520
	<b>3,766,051</b>	<b>-</b>	<b>3,766,051</b>
<b><u>EXPENSES</u></b>			
PURCHASED GAS	2,398,790	-	2,398,790
DISTRIBUTION EXPENSE - OPERATIONS	240,331	5,963	246,294
DISTRIBUTION EXPENSE - MAINTENANCE	272,683	5,897	278,580
CONSUMER ACCOUNTS EXPENSE	260,328	11,514	271,842
ADMINISTRATIVE & GENERAL	380,206	82,287	462,493
DEPRECIATION & AMORTIZATION	129,506	(9,436)	120,070
TAX EXPENSE - PROPERTY	34,376	-	34,376
TAX EXPENSE - OTHER	53,893	-	53,893
INTEREST EXPENSE - OTHER	29,948	(15,821)	14,127
	<b>3,800,061</b>	<b>80,404</b>	<b>3,880,465</b>
OPERATING MARGINS	<b>(34,010)</b>	<b>(80,404)</b>	<b>(114,414)</b>
INTEREST EXPENSE - LTD	86,266	47,780	134,046
<b><u>NON-OPERATING MARGINS</u></b>			
INTEREST INCOME	1,733	-	1,733
OTHER NON-OPERATING INCOME	-	-	-
CAPITAL CREDITS	10,167	-	10,167
	<b>11,900</b>	<b>-</b>	<b>11,900</b>
<b>NET MARGINS</b>	<b>(108,376)</b>	<b>(128,184)</b>	<b>(236,560)</b>

**SUPPORT SCHEDULES:**

(a) E-2

(b) C-2

**RECAP SCHEDULES:**

(C) A-1

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**INCOME STATEMENT PROFORMA ADJUSTMENTS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**

**PROFORMA ADJUSTMENTS**

	A	B	C	D	E	F	G	H	TOTAL (a)
<b>REVENUES</b>									
RESIDENTIAL					101,379				101,379
IRRIGATION					229				229
COMMERCIAL AND INDUSTRIAL					43,141				43,141
FUEL COST UNDERBILLED					(144,749)				(144,749)
OTHER OPERATING REVENUES									-
<b>EXPENSES</b>									
PURCHASED GAS									-
DISTRIBUTION EXPENSE - OPERATIONS							5,963		5,963
DISTRIBUTION EXPENSE - MAINTENANCE							5,897		5,897
CONSUMER ACCOUNTS EXPENSE							7,514	4,000	11,514
ADMINISTRATIVE & GENERAL			835			75,250	6,201		82,287
DEPRECIATION & AMORTIZATION	(16,619)	7,183							(9,436)
TAX EXPENSE - PROPERTY									-
TAX EXPENSE - OTHER									-
INTEREST EXPENSE - OTHER									-
<b>OPERATING MARGINS</b>									
INTEREST EXPENSE - LTD	(16,619)	7,183	835	(15,821)	-	75,250	25,576	4,000	80,404
NON-OPERATING MARGINS	16,619	(7,183)	(835)	15,821	-	(75,250)	(25,576)	(4,000)	(80,404)
INTEREST INCOME				47,780					47,780
OTHER NON-OPERATING INCOME									-
CAPITAL CREDITS									-
<b>NET MARGINS</b>									
	-	-	-	47,780	-	-	-	-	47,780
	16,619	(7,183)	(835)	(31,960)	-	(75,250)	(25,576)	(4,000)	(128,184)

**SUPPORTING SCHEDULES:**

- A - TO ELIMINATE AMORTIZATION OF ACQUISITION ADJUSTMENT
- B - TO ALLOW DEPRECIATION ON ACQUISITION ADJUSTMENT ASSETS CHARGED TO PLANT PER DECISION NO. 58437
- C - TO ADJUST FOR INCREASE IN A.C.C ASSESSMENTS DUE TO INCREASED REVENUE
- D - TO ADJUST FOR INTEREST @ 6% ON NEW \$800,000 LOAN FROM CFC AND ELIMINATE SHORT TERM BORROWING FROM G.C.E.
- E - TO ALLOCATE UNDERBILLED FUEL COST TO RATE CLASSES
- F - TO ANNUALIZE RENT EXPENSE OF NEW OFFICE BUILDING
- G - TO ADJUST FOR INCREASE IN WAGES, PAYROLL TAXES AND PENSION COSTS
- H - TO REFLECT THE INCREASE IN RATE CASE EXPENSE

**SCHEDULE C-3**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPUTATION OF GROSS REVENUE CONVERSION FACTOR  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**NOT APPLICABLE - GCU IS A NON-PROFIT CORPORATION**



**SCHEDULE D-1**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
SUMMARY COST OF CAPITAL  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

INVESTED CAPITAL	<u>END OF ACTUAL TEST YEAR</u>		<u>9/30/2008</u>	
	<u>AMOUNT</u>	<u>%</u>	<u>COST RATE</u>	<u>COMPOSITE</u>
	(b)			
LONG-TERM DEBT ( a )	1,276,464	62.97%	6.76%	6.91%
SHORT-TERM DEBT ( a )	750,751	37.03%	4.75%	0.00%
TOTAL	2,027,215	100.00%		6.91%

INVESTED CAPITAL	<u>END OF PROJECTED YEAR</u>		<u>9/30/2009</u>	
	<u>AMOUNT</u>	<u>%</u>	<u>COST RATE</u>	<u>COMPOSITE</u>
	(b)			
LONG-TERM DEBT ( a )	1,932,181	100.00%	6.91%	6.91%
SHORT-TERM DEBT ( a )	-	0.00%	0.00%	0.00%
TOTAL	1,932,181	100.00%	6.91%	6.91%

**SUPPORTING SCHEDULES:**

(a) D-2

**RECAP SCHEDULES:**

(b) A-3

**SCHEDULE D-2**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF LONG-TERM AND SHORT-TERM DEBT  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<u>END OF TEST YEAR</u>		<u>9/30/08</u>		<u>END OF PROJECTED YEAR</u>	
	<u>WEIGHTED</u>		<u>WEIGHTED</u>		<u>WEIGHTED</u>	
	<u>OUTSTANDING</u>	<u>INTEREST</u>	<u>OUTSTANDING</u>	<u>ANNUAL</u>	<u>OUTSTANDING</u>	<u>ANNUAL</u>
	<u>(a)</u>	<u>RATE</u>	<u>(a)</u>	<u>INTEREST</u>	<u>INTEREST</u>	<u>INTEREST</u>
<b><u>LONG-TERM:</u></b>						
CFC - LOAN TO PURCHASE SYSTEM - FIXED	394,000	7.45%	10,776	7.45%	339,323	27,316
CFC - LOAN TO PURCHASE SYSTEM - VARIABLE	136,192	3.50%	6,593	3.50%	118,353	4,455
CFC - CONSTRUCTION 9002	323,387	7.45%	24,649	7.45%	310,640	23,618
CFC - CONSTRUCTION 9003	366,550	6.25%	23,184	6.25%	359,137	23,742
GRAHAM COUNTY ELECTRIC COOPERATIVE, INC.	56,335	7.40%	17,198	7.40%	14,607	2,772
UNAMORTIZED DEBT EXPENSE			3,867			3,867
NEW CFC LOAN					790,121	47,780
TOTAL LONG-TERM DEBT	<b>1,276,464</b>	<b>6.76%</b>	<b>86,266</b>	<b>6.91%</b>	<b>1,932,181</b>	<b>133,550</b>
SHORT-TERM DEBT	750,751	4.75%	-	-	-	-

**SUPPORTING SCHEDULES:**

(b) E-1

**RECAP SCHEDULES:**

(a) D-1

**SCHEDULE D-3**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF PREFERRED STOCK  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**NOT APPLICABLE**

**SCHEDULE D-4**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COST OF COMMON EQUITY  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**NOT APPLICABLE**

**SCHEDULE E-1**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPARATIVE BALANCE SHEET  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>TEST YEAR ENDED 9/30/08</b>	<b>PRIOR YEARS ENDED 9/30/07</b>	<b>ENDED 9/30/06</b>
<b>ASSETS:</b>			
UTILITY PLANT IN SERVICE	3,597,916	3,277,807	3,090,689
CONSTRUCTION WORK IN PROGRESS ( a )	101,760	17,984	21,026
PLANT ACQUISITION ADJUSTMENT	415,484	415,484	415,484
<b>TOTAL UTILITY PLANT</b>	<b>4,115,160</b>	<b>3,711,275</b>	<b>3,527,199</b>
ACCUMULATED DEPRECIATION	2,070,451	1,940,945	1,823,740
<b>NET UTILITY PLANT</b>	<b>2,044,709</b>	<b>1,770,330</b>	<b>1,703,459</b>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS	135,593	139,355	143,693
<b>CURRENT ASSETS:</b>			
CASH	-	10,330	-
ACCOUNTS RECEIVABLE (NET)	57,220	80,176	78,982
UNDERBILLED CONSUMERS FUEL COST	32,417	-	-
MATERIALS AND SUPPLIES	91,067	84,695	65,567
OTHER CURRENT AND ACCRUED ASSETS	20,562	35,952	31,169
	<b>201,266</b>	<b>211,153</b>	<b>175,718</b>
OTHER ASSETS - DEFERRED DEBITS	19,015	23,926	28,837
	<b>2,400,583</b>	<b>2,144,764</b>	<b>2,051,707</b>
<b>LIABILITIES AND EQUITY:</b>			
MEMBERSHIPS	28,129	28,180	27,445
PATRONAGE CAPITAL	125,783	234,158	100,534
<b>TOTAL EQUITY ( b )</b>	<b>153,912</b>	<b>262,338</b>	<b>127,979</b>
NOTE PAYABLE - GCEC	14,607	56,335	95,096
CFC NOTES PAYABLE	1,113,729	1,221,807	1,309,580
<b>TOTAL LONG-TERM DEBT</b>	<b>1,128,336</b>	<b>1,278,142</b>	<b>1,404,676</b>
<b>CURRENT LIABILITIES:</b>			
Current Maturities of Long-Term Debt	148,128	123,361	113,904
Accounts Payable - Other	103,777	70,330	97,297
Accounts Payable - GGEC	750,751	16,156	77,955
Accounts Payable - Water Department	-	160,862	28,050
Overbilled Consumers Fuel Cost	-	113,137	76,809
Accrued Taxes	35,549	37,568	36,501
Customers' Deposits and Prepayments	67,270	69,875	72,830
Accrued Interest	12,860	12,995	14,935
Accrued Payroll	-	-	771
<b>Total Current Liabilities</b>	<b>1,118,335</b>	<b>604,284</b>	<b>519,052</b>
	<b>2,400,583</b>	<b>2,144,764</b>	<b>2,051,707</b>

**SUPPORT SCHEDULES:**

( a ) E-5

( b ) E-4

**RECAP SCHEDULES:**

( c ) A-3

( d ) B-5

**SCHEDULE E-2**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPARATIVE INCOME STATEMENT  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>TEST YEAR</b>	<b>PRIOR YEARS</b>	
	<b>ENDED 9/30/08</b>	<b>ENDED 9/30/07</b>	<b>ENDED 9/30/06</b>
<b><u>REVENUES:</u></b>			
RESIDENTIAL	2,658,038	2,717,738	2,901,626
IRRIGATION	5,263	8,601	27,473
COMMERCIAL AND INDUSTRIAL	936,481	944,533	1,055,917
FUEL COST OVERBILLED	144,749	(37,223)	(318,195)
OTHER OPERATING RVENUES	21,520	22,280	21,180
	<b>3,766,051</b>	<b>3,655,929</b>	<b>3,688,001 ( b )</b>
<b><u>EXPENSES:</u></b>			
PURCHASED GAS	2,398,790	2,293,478	2,425,984
DISTRIBUTION EXP. - OPER.	240,331	220,270	184,245
DISTRIBUTION EXP. - MAINT.	272,683	227,736	188,017
CONSUMER ACCOUNTS EXP.	260,328	225,183	208,480
ADMIN. & GENERAL	380,206	256,672	254,725
DEPRECIATION & AMORT.	129,506	117,205	110,613
TAXES - PROPERTY	34,376	35,293	35,976
TAXES - OTHER	53,893	44,081	31,839
INTEREST EXPENSE - OTHER	29,948	25,167	43,444
	<b>3,800,061</b>	<b>3,445,086</b>	<b>3,483,322 ( b )</b>
OPERATING MARGINS	<b>(34,010)</b>	<b>210,843</b>	<b>204,679 ( b )</b>
INTEREST EXPENSE - LTD	86,266	90,171	91,511 ( b )
	<b>(120,276)</b>	<b>120,672</b>	<b>113,168</b>
<b><u>NON-OPERATING MARGINS:</u></b>			
INTEREST INCOME	1,733	3,579	10,653
CAPITAL CREDITS	10,167	9,372	8,976
	<b>11,900</b>	<b>12,951</b>	<b>19,629 ( b )</b>
<b>NET MARGINS ( a )</b>	<b>(108,376)</b>	<b>133,623</b>	<b>132,796 ( b )</b>

**SUPPORTING SCHEDULES:**

( a ) E-4

**RECAP SCHEDULES:**

( b ) A-2

**SCHEDULE E-3**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPARATIVE STATEMENT OF CASH FLOWS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>TEST YEAR</b>	<b>PRIOR YEAR</b>	<b>PRIOR YEAR</b>
	<b><u>9/30/2008</u></b>	<b><u>9/30/2007</u></b>	<b><u>9/30/2006</u></b>
<b><u>CASH FLOWS</u></b>			
<b><u>FROM OPERATING ACTIVITIES:</u></b>			
NET MARGINS (DEFICITS)	(108,375)	133,624	132,797
DEPRECIATION AND AMORTIZATION	129,506	117,205	110,613
CAPITAL CREDITS - NONCASH	(3,050)	(2,812)	(8,976)
DEFERRED CHARGES	4,911	4,911	4,911
OVERBILLED FUEL COST	(145,554)	36,328	308,844
ACCOUNTS RECEIVABLE	22,956	(1,194)	28,460
INVENTORIES AND OTHER CURRENT ASSETS	9,018	(23,911)	5,081
PAYABLES AND ACCRUED EXPENSES	28,688	(31,566)	19,377
ADVANCES - WATER DEPARTMENT	(160,862)	132,812	(118,440)
ADVANCES - GCEC	734,595	(61,799)	(236,443)
<b>TOTAL FROM OPERATIONS</b>	<b>511,833</b>	<b>303,598</b>	<b>246,224</b>
<b><u>FROM INVESTING ACTIVITIES:</u></b>			
ADDITIONS TO PLANT/PURCHASE OF PROPE	(403,886)	(184,075)	(151,914)
SALVAGE VALUE OF PLANT RETIRED	-	-	-
PATRONAGE CAPITAL RETIREMENT - CFC	6,812	7,150	12,565
<b>TOTAL FROM FINANCING</b>	<b>(397,074)</b>	<b>(176,925)</b>	<b>(139,349)</b>
<b><u>FROM FINANCING:</u></b>			
PAYMENTS ON LONG-TERM DEBT - CFC	(86,277)	(81,074)	(73,931)
PAYMENTS ON LONG-TERM DEBT - GCEC	(38,761)	(36,004)	(33,444)
MEMBERSHIPS	(51)	735	500
<b>TOTAL FROM FINANCING</b>	<b>(125,089)</b>	<b>(116,343)</b>	<b>(106,875)</b>
<b>CHANGE</b>	<b>(10,330)</b>	<b>10,330</b>	<b>-</b>
<b>BALANCE AT BEGINNING OF YEAR</b>	<b>10,330</b>	<b>-</b>	<b>-</b>
<b>BALANCE AT END OF YEAR</b>	<b>-</b>	<b>10,330</b>	<b>-</b>

**SUPPORT SCHEDULES:****RECAP SCHEDULES:**

A-5

**SCHEDULE E-4**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
STATEMENT OF CHANGE IN MEMBERS EQUITY  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**TOTAL MARGINS  
AND EQUITIES**

BALANCE SEPTEMBER 30, 2003	<b>(117,166)</b>
NET EARNINGS (LOSS)	31,032
INCREASE IN MEMBERSHIPS	600
BALANCE SEPTEMBER 30, 2004	<b>(85,534)</b>
NET EARNINGS (LOSS)	79,931
INCREASE IN MEMBERSHIPS	285
BALANCE SEPTEMBER 30, 2005	<b>(5,318)</b>
NET EARNINGS (LOSS)	132,796 ( b )
INCREASE IN MEMBERSHIPS	500 ( a )
BALANCE SEPTEMBER 30, 2006	<b>127,978 ( a )</b>
NET EARNINGS (LOSS)	133,623 ( b )
INCREASE IN MEMBERSHIPS	735 ( a )
BALANCE SEPTEMBER 30, 2007	<b>262,338 ( a )</b>
NET EARNINGS (LOSS)	(108,376) ( b )
INCREASE IN MEMBERSHIPS	(51) ( a )
ROUNDING DOLLARS	1
BALANCE SEPTEMBER 30, 2008	<b>153,912 ( a )</b>

SUPPORT SCHEDULES:

( a ) E-1

( b ) E-2

RECAP SCHEDULES:



**SCHEDULE E-5**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
DETAIL OF UTILITY PLANT  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>G/L BALANCE PRIOR YEAR</b>	<b>PLANT IN SERVICE</b>	<b>ADJUSTED PRIOR YEAR</b>	<b>END OF TEST YEAR</b>
	<b>9/30/2007</b>	<b>FROM ACQ. ADJ.</b>	<b>9/30/2007</b>	<b>NET ADDITIONS</b>
	<b>9/30/2007</b>	<b>ADJ.</b>	<b>9/30/2007</b>	<b>9/30/2008</b>
<b>INTANGIBLE PLANT:</b>				
2301 ORGANIZATION	42,522		42,522	-
<b>SUBTOTAL INTANGIBLE</b>	<b>42,522</b>	<b>-</b>	<b>42,522</b>	<b>-</b>
<b>DISTRIBUTION PLANT</b>				
2374 LAND & LAND RIGHTS	1,416	78	1,494	-
2376 MAINS	1,441,516	214,381	1,655,897	109,129
2380 SERVICES	696,362	45,384	741,746	50,949
2381 METERS & REGULATORS	980,520		980,520	81,024
<b>SUBTOTAL DISTRIBUTION</b>	<b>3,119,814</b>	<b>259,843</b>	<b>3,379,657</b>	<b>241,102</b>
<b>GENERAL PLANT</b>				
2390 STRUCTURES & IMPROVEMENTS	3,309		3,309	-
2391 OFFICE EQUIPMENT	2,750		2,750	-
2392 TRANSPORTATION EQUIPMENT	-		-	-
2394 TOOLS, SHOP & GARAGE EQUIPMENT	103,411		103,411	21,120
2396 POWER OPERATED EQUIPMENT	6,000		6,000	57,887
<b>SUBTOTAL GENERAL</b>	<b>115,470</b>	<b>-</b>	<b>115,470</b>	<b>79,007</b>
<b>TOTAL PLANT IN SERVICE</b>	<b>3,277,806</b>	<b>259,843</b>	<b>3,537,649</b>	<b>320,109</b>
CWIP	17,984		17,984	83,776
<b>TOTAL NET PLANT</b>	<b>3,295,790</b>	<b>259,843</b>	<b>3,555,633</b>	<b>403,885</b>
<b>RECONCILIATION TO GENERAL LEDGER</b>				
PER GENERAL LEDGER	3,693,291		3,693,291	4,013,400
LESS: ACQUISITION ADJUSTMENT	(415,485)		(415,485)	(415,485)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1	259,843		259,843	259,843
CWIP	17,984		17,984	101,760
<b>NET</b>	<b>3,555,633</b>	<b>-</b>	<b>3,555,633</b>	<b>-</b>
<b>ACCUMULATED DEPRECIATION</b>				
DISTRIBUTION	1,535,917	127,493	1,663,410	104,792
GENERAL	105,879		105,879	15,278
<b>TOTAL</b>	<b>1,641,796</b>	<b>127,493</b>	<b>1,769,289</b>	<b>120,070</b>
<b>RECONCILIATION TO GENERAL LEDGER</b>				
PER GENERAL LEDGER	1,940,945		1,940,945	2,070,451
LESS: ACQUISITION ADJUSTMENT	(299,149)		(299,149)	(16,619)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1	127,493		127,493	7,183
<b>NET</b>	<b>1,769,289</b>	<b>-</b>	<b>1,769,289</b>	<b>120,070</b>
<b>NET PLANT</b>	<b>1,653,994</b>	<b>132,350</b>	<b>1,786,344</b>	<b>283,815</b>

**SUPPORTING SCHEDULES:**

**RECAP SCHEDULES:**

**A-4 E-1**

GRAHAM COUNTY UTILITIES, INC. - GAS  
SCHEDULE OF PLANT  
TEST FISCAL YEAR SEPTEMBER 30, 2008

ACCOUNT #	DESCRIPTION	12/31/2003	NET ADDITIONS	9/30/2004	NET ADDITIONS	9/30/2005	NET ADDITIONS	9/30/2006	NET ADDITIONS	9/30/2007	NET ADDITIONS	9/30/08
2301.00	ORGANIZATION	42,522	42,522	1,494	42,522	1,494	42,522	1,494	42,522	1,494	42,522	42,522
2374.00	LAND & LAND RIGHTS	1,452,305	1,485,062	44,694	1,529,756	64,067	1,593,823	62,074	1,655,897	109,129	1,765,026	1,765,026
2376.00	MAINS	602,146	14,813	616,959	22,096	639,055	58,139	697,194	741,746	50,949	792,695	792,695
2380.00	SERVICES	829,186	16,168	845,354	39,785	885,139	24,996	910,135	980,520	81,024	1,061,544	1,061,544
2381.00	METERS & REGULATORS	3,309	3,309	2,750	3,309	2,750	3,309	2,750	3,309	2,750	3,309	3,309
2390.00	STRUCTURES & IMPROVEMENTS	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750
2391.00	OFFICE EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-
2392.00	TRANSPORTATION EQUIPMENT	83,565	4,860	88,425	3,348	91,773	1,531	93,304	103,411	21,120	124,531	124,531
2394.00	TOOLS, SHOP & GARAGE EQUIPMENT	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
2396.00	POWER OPERATED EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-
	TOTAL	3,023,277	68,598	3,091,875	109,923	3,201,798	148,733	3,350,531	187,118	3,537,649	320,109	3,857,758

RECONCILIATION TO GENERAL LEDGER

PER GENERAL LEDGER	3,178,919	68,598	3,247,517	109,923	3,357,440	148,733	3,506,173	187,118	3,693,291	320,109	4,013,400
LESS: ACQUISITION ADJUSTMENT	(415,485)	-	(415,485)	-	(415,485)	-	(415,485)	-	(415,485)	-	(415,485)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	259,843	259,843	259,843	259,843	259,843	259,843	259,843	259,843	259,843	259,843	259,843
NET	3,023,277	68,598	3,091,875	109,923	3,201,798	148,733	3,350,531	187,118	3,537,649	320,109	3,857,758

ACCOUNT # DESCRIPTION

2108.60	ACCUM PROV FOR DEPR - DIST PLANT	1,350,539	65,110	1,415,649	88,613	1,504,262	60,305	1,564,567	98,843	1,663,410	104,792	1,768,202
2108.70	ACCUM PROV FOR DEPR - GENERAL PLANT	74,645	5,790	80,435	8,177	88,611	8,342	96,953	8,926	105,879	15,278	121,157
	TOTAL	1,425,184	70,900	1,496,084	96,790	1,592,873	68,647	1,661,520	107,769	1,769,289	120,070	1,889,359

RECONCILIATION TO GENERAL LEDGER

PER GENERAL LEDGER	1,561,452	77,978	1,639,430	106,226	1,745,656	78,084	1,823,740	117,205	1,940,945	129,506	2,070,451
LESS: ACQUISITION ADJUSTMENT	(236,825)	(12,465)	(249,290)	(16,619)	(265,910)	(16,620)	(282,530)	(16,619)	(299,149)	(16,619)	(315,768)
PLUS: PORTION OF ACQ. ADJ. USED FOR PLANT (1)	100,557	5,387	105,944	7,183	113,127	7,183	120,310	7,183	127,493	7,183	134,676
NET	1,425,184	70,900	1,496,084	96,790	1,592,873	68,647	1,661,520	107,769	1,769,289	120,070	1,889,359

(1) PER DECISION NO. 58437

**SCHEDULE E-6**

**PAGE 2 OF 2**

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
COMPARATIVE DEPARTMENTAL OPERATING INCOME STATEMENT  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**NOT APPLICABLE**

**SCHEDULE E-7**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
OPERATING STATISTICS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

<b><u>GAS STATISTICS (a)</u></b>	<b><u>TEST YEAR ENDED 9/30/08</u></b>	<b><u>PRIOR YEAR ENDED 9/30/07</u></b>	<b><u>PRIOR YEAR ENDED 9/30/06</u></b>
<b><u>THERMS SOLD</u></b>			
RESIDENTIAL	2,054,499	2,084,626	1,811,937
IRRIGATION	4,651	7,836	21,655
COMMERCIAL	874,268	869,347	782,368
<b>TOTALS</b>	<b>2,933,418</b>	<b>2,961,809</b>	<b>2,615,960</b>
<b><u>AVERAGE NUMBER OF CUSTOMERS</u></b>			
RESIDENTIAL	4,802	4,705	4,603
IRRIGATION	7	10	12
COMMERCIAL	252	247	244
<b>TOTALS</b>	<b>5,060</b>	<b>4,962</b>	<b>4,859</b>
<b><u>AVERAGE THERM USE</u></b>			
RESIDENTIAL	428	443	394
IRRIGATION	698	758	1,805
COMMERCIAL	3,469	3,520	3,211
<b>TOTALS</b>	<b>4,595</b>	<b>4,721</b>	<b>5,409</b>
AVERAGE ANNUAL REVENUE PER RESIDENTIAL CUSTOMER	554	578	630

**SUPPORTING SCHEDULES:****(a) FORM 7 FOR RESPECTIVE YEARS****(b) E-7-1**

**SCHEDULE E-8**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TAXES CHARGED TO OPERATIONS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>TEST YEAR</b>	<b>PRIOR YEAR</b>	<b>PRIOR YEAR</b>
	<b><u>9/30/2008</u></b>	<b><u>9/30/2007</u></b>	<b><u>9/30/2006</u></b>
PAYROLL & OTHER	53,893	44,081	31,839
PROPERTY	34,376	35,293	35,976
<b>TOTAL TAXES</b>	<b><u>88,269</u></b>	<b><u>79,374</u></b>	<b><u>67,815</u></b>

**SCHEDULE E-9**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**NOTES TO FINANCIAL STATEMENTS**

**SEE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**SCHEDULE F-1**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROJECTED INCOME STATEMENTS  
PRESENT AND PROPOSED RATES  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<u>TEST YEAR</u>	<u>PROJECTED YEAR ENDED 9/30/08</u>	
	<u>ENDED 9/30/08</u>	<u>PRESENT</u>	<u>PROPOSED</u>
	<u>( a )</u>	<u>( b )</u>	<u>( b )</u>
<b><u>REVENUES:</u></b>			
SALES OF NATURAL GAS	3,599,782	3,744,531	4,225,020
FUEL COST OVERBILLED	144,749	-	-
OTHER GAS REVENUE	21,520	21,520	57,764
	<b>3,766,051</b>	<b>3,766,051</b>	<b>4,282,784</b>
<b><u>EXPENSES:</u></b>			
PURCHASED GAS	2,398,790	2,398,790	2,398,790
DISTRIBUTION EXP. - OPER.	240,331	246,294	246,294
DISTRIBUTION EXP. - MAINT.	272,683	278,580	278,580
CONSUMER ACCOUNTS EXP.	260,328	271,842	271,842
ADMIN. & GENERAL	380,206	461,658	461,658
DEPRECIATION & AMORT.	129,506	120,070	120,070
TAXES - PROPERTY	34,376	34,376	34,376
TAXES - OTHER	53,893	53,893	53,893
INTEREST EXPENSE - OTHER	29,948	14,127	14,127
	<b>3,800,061</b>	<b>3,879,630</b>	<b>3,879,630</b>
<b><u>OPERATING MARGINS</u></b>	<b>(34,010)</b>	<b>(113,579)</b>	<b>403,154</b>
INTEREST EXPENSE - LTD	86,266	134,046	134,046
<b><u>NON-OPERATING MARGINS:</u></b>			
INTEREST INCOME	1,733	1,733	1,733
OTHER NON-OPERATING INCOMI	-	-	-
CAPITAL CREDITS	10,167	10,167	10,167
	<b>11,900</b>	<b>11,900</b>	<b>11,900</b>
<b><u>NET MARGINS</u></b>	<b>(108,376)</b>	<b>(235,725)</b>	<b>281,008</b>

**SUPPORTING SCHEDULES:**

( a ) E-2

**SCHEDULE F-2**

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Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**PROJECTED CHANGES IN FINANCIAL POSITION**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**

	<b>PROJECTED YEAR</b>		
	<b>TEST YEAR</b>	<b>AT PRESENT</b>	<b>AT PROPOSED</b>
	<b>ENDED</b>	<b>RATES</b>	<b>RATES</b>
	<b>YEAR ENDED</b>	<b>YEAR ENDED</b>	<b>YEAR ENDED</b>
	<b><u>9/30/2008</u></b>	<b><u>9/30/2008</u></b>	<b><u>9/30/2008</u></b>
<b><u>CASH FLOWS</u></b>			
<b><u>FROM OPERATING ACTIVITIES:</u></b>			
NET MARGINS (DEFICITS)	(108,375)	(235,725)	281,008
DEPRECIATION AND AMORTIZATION	129,506	129,506	129,506
CAPITAL CREDITS - NONCASH	(3,050)	(3,050)	(3,050)
DEFERRED CHARGES	4,911	4,911	4,911
OVERBILLED FUEL COST	(145,554)	(145,554)	(145,554)
ACCOUNTS RECEIVABLE	22,956	22,956	22,956
INVENTORIES AND OTHER CURRENT AS	9,018	9,018	9,018
PAYABLES AND ACCRUED EXPENSES	28,688	28,688	28,688
ADVANCES - WATER DEPARTMENT	(160,862)	(160,862)	(160,862)
ADVANCES - GCEC	734,595	859,363	(287,656)
<b>TOTAL FROM OPERATIONS</b>	<b><u>511,833</u></b>	<b><u>509,251</u></b>	<b><u>(121,035)</u></b>
<b><u>FROM INVESTING ACTIVITIES:</u></b>			
ADDITIONS TO PLANT/PURCHASE OF PF	(403,886)	(403,886)	(403,886)
SALVAGE VALUE OF PLANT RETIRED	-		
PATRONAGE CAPITAL RETIREMENT - CF	6,812	6,812	6,812
<b>TOTAL FROM FINANCING</b>	<b><u>(397,074)</u></b>	<b><u>(397,074)</u></b>	<b><u>(397,074)</u></b>
<b><u>FROM FINANCING:</u></b>			
<b><u>ADVANCES FROM CFC</u></b>		800,000	800,000
PAYMENTS ON LONG-TERM DEBT - CFC	(86,277)	(96,156)	(96,156)
PAYMENTS ON LONG-TERM DEBT - GCE	(38,761)	(38,761)	(38,761)
MEMBERSHIPS	(51)	(51)	(51)
<b>TOTAL FROM FINANCING</b>	<b><u>(125,089)</u></b>	<b><u>665,032</u></b>	<b><u>665,032</u></b>
<b>CHANGE</b>	<b><u>(10,330)</u></b>	<b><u>777,209</u></b>	<b><u>146,923</u></b>
<b>BALANCE AT BEGINNING OF YEAR</b>	<b><u>10,330</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>BALANCE AT END OF YEAR</b>	<b><u>-</u></b>	<b><u>777,209</u></b>	<b><u>146,923</u></b>

**SUPPORT SCHEDULES:**

- (a) E-3  
(c) F-3

**RECAP SCHEDULES:**

- (b) A-5



**SCHEDULE F-3**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
PROJECTED CONSTRUCTION REQUIREMENTS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

	ACTUAL		PROJECTED YEAR ENDED	
	TEST YEAR		ENDED	
			YEAR	YEAR ENDED
PROPERTY CLASSIFICATION:	9/30/2008	9/30/2009	ENDED	9/30/2011
DISTRIBUTION PLANT	241,102	125,000	9/30/2010	125,000
GENERAL PLANT	21,120	10,000	10,000	10,000
TOTAL PLANT (a)	262,222	135,000	135,000	135,000

**SUPPORTING SCHEDULES:****RECAP SCHEDULES:**

(a) F-2 &amp; A-4

**SCHEDULE F-4**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
ASSUMPTIONS USED IN DEVELOPING PROJECTIONS  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
AT PRESENT AND PROPOSED RATES - SCHEDULE F-1**

<b>PURCHASED GAS</b>	<b>PRESENT</b>	<b>PROPOSED</b>
TRANSPORTATION (PER THERM)	0.0681	0.0681
GAS (PER THERM) - BLENDED	0.8180	0.8180
FUEL ADJUSTOR	0.1776	-
STAFFING LEVELS	10	10
ANNUAL WAGE INCREASES THROUGH 6/30/11	3.00%	3.00%
NRECA RETIREMENT COST RATE - % OF GROSS PAYRO	18.94%	18.94%
401 K CONTRIBUTION RATE	4.00%	4.00%
DEPRECIATION RATES		
MAINS	2.80%	2.80%
SERVICES	4.10%	4.10%
METERS & REGULATORS	2.60%	2.60%
GENERAL PLANT	7.00%	7.00%

**CONSTRUCTION EXPENDITURES - SCHEDULE F-3**

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COST OF SERVICE SUMMARY - PRESENT RATES**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b>Operating Revenues</b>	<b>3,766,051</b>	<b>2,779,836</b>	<b>980,695</b>	<b>5,520</b>
<b><u>Operating Expenses:</u></b>				
Purchased Gas	2,398,789	1,680,048	714,930	3,811
Distribution Expense - Operations	246,295	199,208	46,276	811
Distribution Expense - Maintenance	278,580	218,357	59,501	722
Customer Account Expense	271,842	254,187	17,158	497
Administrative & General Expense	462,493	393,472	67,959	1,062
Depreciation	120,070	99,091	20,528	451
Property Taxes	34,376	24,334	10,026	16
Tax Expense - Other	53,894	45,851	7,919	124
Interest Expense -Other	14,126	13,404	704	18
<b>Total Operation Expenses</b>	<b>3,880,465</b>	<b>2,927,952</b>	<b>945,001</b>	<b>7,512</b>
<b>Operating Income (Loss)</b>	<b>(114,414)</b>	<b>(148,116)</b>	<b>35,694</b>	<b>(1,992)</b>
<b>Rate Base</b>	<b>2,055,868</b>	<b>1,688,481</b>	<b>359,940</b>	<b>7,447</b>
<b>% Return - Present Rates</b>	<b>-5.57%</b>	<b>-8.77%</b>	<b>9.92%</b>	<b>-26.75%</b>
<b>Return Index</b>	<b>1.00</b>	<b>1.58</b>	<b>(1.78)</b>	<b>4.81</b>
<b>Allocated Interest - Long-Term</b>	<b>134,046</b>	<b>110,092</b>	<b>23,469</b>	<b>486</b>
<b>Operating TIER - Present Rates</b>	<b>(0.85)</b>	<b>(1.35)</b>	<b>1.52</b>	<b>(4.10)</b>

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**COST OF SERVICE SUMMARY - PROPOSED RATES**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b>Operating Revenues</b>	<b>4,282,784</b>	<b>3,252,683</b>	<b>1,024,235</b>	<b>5,865</b>
<b><u>Operating Expenses:</u></b>				
Purchased Gas	2,398,789	1,680,048	714,930	3,811
Distribution Expense - Operations	246,295	199,208	46,276	811
Distribution Expense - Maintenance	278,580	218,357	59,501	722
Customer Account Expense	271,842	254,187	17,158	497
Administrative & General Expense	462,493	393,472	67,959	1,062
Depreciation	120,070	99,091	20,528	451
Property Taxes	34,376	24,334	10,026	16
Tax Expense - Other	53,894	45,851	7,919	124
Interest Expense -Other	14,126	13,404	704	18
<b>Total Operation Expenses</b>	<b>3,880,465</b>	<b>2,927,952</b>	<b>945,001</b>	<b>7,512</b>
<b>Operating Income (Loss)</b>	<b>402,319</b>	<b>324,731</b>	<b>79,234</b>	<b>(1,647)</b>
<b>Rate Base</b>	<b>2,055,868</b>	<b>1,688,481</b>	<b>359,940</b>	<b>7,447</b>
<b>% Return - Proposed Rates</b>	<b>19.57%</b>	<b>19.23%</b>	<b>22.01%</b>	<b>-22.11%</b>
<b>Return Index</b>	<b>1.00</b>	<b>0.98</b>	<b>1.12</b>	<b>(1.13)</b>
<b>Allocated Interest - Long-Term</b>	<b>134,046</b>	<b>110,092</b>	<b>23,469</b>	<b>486</b>
<b>Operating TIER - Proposed Rates</b>	<b>3.00</b>	<b>2.95</b>	<b>3.38</b>	<b>(3.39)</b>

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**  
**UNIT COSTS**

<u>DESCRIPTION</u>	<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b><u>UNIT COSTS - PRESENT RATES:</u></b>				
<b><u>DEMAND</u></b>				
Amount	403,762	321,038	82,206	519
Bills	60,728	57,621	3,028	79
Therms	2,933,418	2,054,499	874,268	4,651
Per Bill	6.65	5.57	27.15	6.57
Per Therms	0.1376	0.1563	0.0940	0.1115
<b><u>COMMODITY:</u></b>				
Amount	2,265,292	1,586,559	675,141	3,592
Per Therms	0.8177	0.8177	0.8177	0.8177
<b><u>CUSTOMER:</u></b>				
Amount	1,096,997	872,240	223,348	1,410
Per Bill	18.06	15.14	73.76	17.84
<b><u>UNIT COSTS - PROPOSED RATES:</u></b>				
<b><u>DEMAND</u></b>				
Amount	542,783	431,576	110,510	697
Per Bill	52.81	7.49	36.50	8.83
Per Therms	0.4864	0.2101	0.1264	0.1500
<b><u>COMMODITY:</u></b>				
Amount	2,265,292	1,586,559	675,141	3,592
Per Therms	0.8177	0.8177	0.8177	0.8177
<b><u>CUSTOMER:</u></b>				
Amount	1,474,709	1,172,564	300,250	1,895
Per Bill	143.49	20.35	99.16	23.99

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
ALLOCATION OF RATE BASE**

CONSUMER CLASS					
DESCRIPTION	FACTOR	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
GROSS PLANT IN SERVICE:					
Demand	D-1	952,540	674,297	277,798	445
Commodity	CM-1	-			
Customer - Weighted	C-1	2,905,218	2,497,748	393,772	13,698
Customer - Unweighted	C-2	-			
Total		3,857,758	3,172,045	671,570	14,143
ACCUMULATED DEPRECIATION:					
Demand	D-1	466,512	330,241	136,053	218
Commodity	CM-1	-			
Customer - Weighted	C-1	1,422,847	1,223,286	192,852	6,709
Customer - Unweighted	C-2	-			
Total		1,889,359	1,553,527	328,905	6,927
NET PLANT IN SERVICE					
		1,968,399	1,618,518	342,665	7,216
CWIP:					
Demand	D-1	25,127	17,787	7,328	12
Commodity	CM-1	-			
Customer - Weighted	C-1	76,633	65,885	10,387	361
Customer - Unweighted	C-2	-			
Total		101,760	83,672	17,715	373
WORKING CAPITAL:					
Demand	D-1	12,890	9,125	3,759	6
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	34,075	29,295	4,619	161
Customer - Unweighted	C-2	6,014	5,706	300	8
Total		52,979	44,126	8,678	175
LESS:					
CONSUMER DEPOSITS	C-1	67,270	57,835	9,118	317
TOTAL RATE BASE		2,055,868	1,688,481	359,940	7,447

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**  
**ALLOCATION OF INCOME STATEMENT**

		CONSUMER CLASS (PRESENT)				CONSUMER CLASS (PROPOSED)			
DESCRIPTION	FACTOR	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION	TOTAL	RESIDENTIAL	COMMERCIAL	IRRIGATION
<b>REVENUES:</b>									
Gas Sales - Adjusted		3,744,531	2,759,417	979,622	5,492	4,225,020	3,197,875	1,021,355	5,790
Service Charges & Other Revenues	C-2	21,520	20,419	1,073	28	57,764	54,809	2,880	75
<b>Total</b>		<b>3,766,051</b>	<b>2,779,836</b>	<b>980,695</b>	<b>5,520</b>	<b>4,282,784</b>	<b>3,252,683</b>	<b>1,024,235</b>	<b>5,865</b>
<b>OPERATING EXPENSE:</b>									
<b>Purchased Gas</b>	CM-1	<b>2,398,789</b>	<b>1,680,048</b>	<b>714,930</b>	<b>3,811</b>				
<b>Distribution Expense - Operations:</b>									
Demand	D-1	82,599	58,471	24,089	39				
Commodity	CM-1	-							
Customer - Weighted	C-1	163,696	140,737	22,187	772				
Customer - Unweighted	C-2	-							
<b>Total</b>		<b>246,295</b>	<b>199,208</b>	<b>46,276</b>	<b>811</b>				
<b>Distribution Expense - Maintenance:</b>									
Demand	D-1	139,290	98,603	40,622	65				
Commodity	CM-1	-							
Customer - Weighted	C-1	139,290	119,754	18,879	657				
Customer - Unweighted	C-2	-							
<b>Total</b>		<b>278,580</b>	<b>218,357</b>	<b>59,501</b>	<b>722</b>				
<b>Customer Accounts Expense:</b>									
Demand	D-1	-							
Commodity	CM-1	-							
Customer - Weighted	C-1	-							
Customer - Unweighted	C-2	271,842	254,187	17,158	497				
<b>Total</b>		<b>271,842</b>	<b>254,187</b>	<b>17,158</b>	<b>497</b>				
<b>Admin. &amp; General Expense:</b>									
Demand	D-1	126,896	89,829	37,008	59				
Commodity	CM-1	-	-	-	-				
Customer - Weighted	C-1	165,933	142,660	22,491	782				
Customer - Unweighted	C-2	169,664	160,983	8,460	221				
<b>Total</b>		<b>462,493</b>	<b>393,472</b>	<b>67,959</b>	<b>1,062</b>				

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
ALLOCATION OF INCOME STATEMENT**

<u>DESCRIPTION</u>	<u>FACTOR</u>	<u>CONSUMER CLASS</u>			
		<u>TOTAL</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>	<u>IRRIGATION</u>
<b><u>Depreciation:</u></b>					
Demand	D-1	27,254	19,293	7,948	13
Commodity	CM-1	-			
Customer - Weighted	C-1	92,816	79,798	12,580	438
Customer - Unweighted	C-2	-			
<b>Total</b>		<b>120,070</b>	<b>99,091</b>	<b>20,528</b>	<b>451</b>
<b><u>Property Taxes:</u></b>					
Demand	D-1	7,803	5,523	2,276	4
Commodity	CM-1	-			
Customer - Weighted	C-1	26,573	18,811	7,750	12
Customer - Unweighted	C-2	-			
<b>Total</b>		<b>34,376</b>	<b>24,334</b>	<b>10,026</b>	<b>16</b>
<b><u>Tax Expense - Other:</u></b>					
Demand	D-1	14,787	10,468	4,312	7
Commodity	CM-1	-	-	-	-
Customer - Weighted	C-1	19,336	16,624	2,621	91
Customer - Unweighted	C-2	19,771	18,759	986	26
<b>Total</b>		<b>53,894</b>	<b>45,851</b>	<b>7,919</b>	<b>124</b>
<b><u>Interest Expense - Other:</u></b>					
Demand	D-1	-			
Commodity	CM-1	-			
Customer - Weighted	C-1	-			
Customer - Unweighted	C-2	14,126	13,404	704	18
<b>Total</b>		<b>14,126</b>	<b>13,404</b>	<b>704</b>	<b>18</b>
<b>TOTAL OPERATING EXPENSES</b>		<b>3,880,465</b>	<b>2,927,952</b>	<b>945,001</b>	<b>7,512</b>
<b>OPERATING INCOME (LOSS)</b>		<b>(114,414)</b>	<b>(148,116)</b>	<b>35,694</b>	<b>(1,992)</b>
<b>OPERATING INCOME PERCENT</b>		<b>-3.04%</b>	<b>-5.33%</b>	<b>3.64%</b>	<b>-36.09%</b>



**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
FUNCTION OF RATE BASE COMPONENTS**

DESCRIPTION		FACTOR	TOTAL	FUNCTION	SPECIFIC	DEMAND	COMMODITY	CUST. - WT	CUST.
GROSS UTILITY PLANT IN SERVICE									
Distribution Plant:									
F-3	Distribution Mains		1,765,026	1,765,026		882,513		882,513	
F-3	Org. & Land & Land Rights		44,016	44,016		22,008		22,008	
F-4	Services		792,695	792,695				792,695	
F-5	Meters & Regulators		1,061,544	1,061,544				1,061,544	
F-7	Total Distribution Plant		3,663,281	3,663,281	-	904,521	-	2,758,760	-
	Percent		100.00%	100.00%	0.00%	24.69%	0.00%	75.31%	0.00%
General Plant:									
	Structures & Improvements		3,309	3,309		817		2,492	
	Office Equipment		2,750	2,750		679		2,071	
	Transportation Equipment		-	-		-		-	
	Tools & Shop Equipment		124,531	124,531		30,749		93,782	
	Power Operated Equipment		63,887	63,887		15,775		48,112	
F-7	Total General Plant		194,477	194,477	-	48,019	-	146,458	-
	Percent		100.00%	100.00%	0.00%	24.69%	0.00%	75.31%	0.00%
GROSS PLANT IN SERVICE									
	PERCENT		3,857,758	3,857,758	-	952,540	-	2,905,218	-
			100.00%	100.00%	0.00%	24.69%	0.00%	75.31%	0.00%
ACCUMULATED DEPRECIATION:									
F-7	Distribution Plant		1,768,202	1,768,202	-	436,596	-	1,331,605	-
F-7	General Plant		121,157	121,157	-	29,916	-	91,241	-
	Total Accumulated Depreciation		1,889,359	1,889,359	-	466,512	-	1,422,847	-
	CWIP		101,760		101,760	25,126		76,634	
WORKING CAPITAL:									
F-7	Materials & Supplies Inventory		32,417	32,417		7,358	-	25,059	-
F-9	Prepays		20,562	20,562		5,532	-	9,016	6,014
	Consumer Deposits		-	-				-	
	Total Working Capital		52,979	52,979	-	12,890	-	34,075	6,014
	TOTAL RATE BASE		2,123,138	2,021,378	101,760	524,044	-	1,593,080	6,014

GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
FUNCTION OF OPERATING EXPENSES

DESCRIPTION	FACTOR	TOTAL	FUNCTION	DEMAND	COMMODITY	CUST. - WT	CUST.
Purchased Gas	F-2	2,398,790	2,398,790		2,398,790		
<b>Distribution Operating Expenses:</b>							
Supervision & Engineering	F-3	29,454	29,454	14,727		14,727	
Mains & Services	F-3	87,772	87,772	43,886		43,886	
Measuring & Reg Stations	F-1	-	-	-		-	
Customer Installations	F-4	81,098	81,098			81,098	
Other Operating Expenses	F-3	47,970	47,970	23,985		23,985	
<b>Total Operating Expenses</b>		<b>246,294</b>	<b>246,294</b>	<b>82,598</b>	-	<b>163,696</b>	-
<b>Distribution Maint. Expenses:</b>							
Supervision & Engineering	F-3	16,964	16,964	8,482		8,482	
Mains	F-3	261,616	261,616	130,808		130,808	
<b>Total Maint. Expenses</b>		<b>278,580</b>	<b>278,580</b>	<b>139,290</b>	-	<b>139,290</b>	-
Meter Reading Expenses	F-6	84,109	84,109			42,054	42,054
Customer Accounting & Info. Exp.	F-6	165,917	165,917			165,917	165,917
Delinquent Accts. & Uncollectible	F-6	21,816	21,816			21,816	21,816
<b>Total Customer Accounts Expenses:</b>		<b>271,842</b>	<b>271,842</b>	-	-	<b>42,054</b>	<b>229,787</b>
Administrative & General Exp.	F-8	462,493	462,493	126,896		165,933	169,663
Depreciation	F-7	120,070	120,070	27,254		92,816	
Property Taxes	F-7	34,376	34,376	7,803		26,573	
Taxes - Other	F-8	53,893	53,893	14,787		19,336	19,770
Interest Expense - Other	F-6	14,127	14,127				14,127
<b>TOTAL OPERATING EXPENSES</b>		<b>3,880,465</b>	<b>3,880,464</b>	<b>398,628</b>	<b>2,398,790</b>	<b>649,699</b>	<b>433,348</b>
<b>FUNCT. OF SALARIES &amp; WAGES</b>							
Operating Expenses	F-3	113,485	113,485	56,742		56,742	
Maintenance Expenses	F-3	122,600	122,600	61,300		61,300	
Meter Reading & Installation	F-6	77,283	77,283			36,314	40,969
Customer Accounting	F-6	116,856	116,856				116,856
<b>Total</b>		<b>430,223</b>	<b>430,223</b>	<b>118,042</b>	-	<b>154,356</b>	<b>157,825</b>
<b>Percent</b>	F-8	<b>100.00%</b>	<b>100.00%</b>	<b>27.44%</b>	<b>0.00%</b>	<b>35.88%</b>	<b>36.68%</b>
<b>FUNCTION OF O&amp;M LESS PG</b>		<b>1,481,675</b>	<b>1,481,674</b>	<b>398,628</b>	-	<b>649,699</b>	<b>433,348</b>
<b>Percent</b>	F-9	<b>100.00%</b>	<b>100.00%</b>	<b>26.90%</b>	<b>0.00%</b>	<b>43.85%</b>	<b>29.25%</b>
<b>Percent</b>		<b>100.00%</b>		<b>26.90%</b>		<b>43.85%</b>	<b>29.25%</b>

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
ALLOCATION FACTORS**

<b>FUNCTION FACTOR</b>	<b>DESCRIPTION</b>		<b>TOTAL</b>	<b>DEMAND</b>	<b>COMMODITY</b>	<b>WEIGHTED CUSTOMER</b>	<b>CUSTOMER</b>
F-1		Demand	100.00%	100.00%			
F-2	Commodity		100.00%		100.00%		
F-3	Distribution Mains		100.00%	100.00%			
F-3a	Mains & Services		100.00%	50.00%		50.00%	
F-4	Services		100.00%			100.00%	
F-5	Meters & regulators		100.00%			100.00%	
F-6	Customer Accounts		100.00%				100.00%

**DERIVED  
FUNCTION  
FACTOR**

<b>FACTOR</b>	<b>DESCRIPTION</b>		<b>TOTAL</b>	<b>DEMAND</b>	<b>COMMODITY</b>	<b>WEIGHTED CUSTOMER</b>	<b>CUSTOMER</b>
F-7	Gross Plant in Service		100.00%	22.70%		77.30%	
F-8	Salaries & Wages		100.00%	27.44%	0.00%	35.88%	36.68%
F-9	O & M Less Purchased gas		100.00%	26.90%	0.00%	43.85%	29.25%

**CLASS  
ALLOCATION  
FACTORS**

<b>FACTOR</b>	<b>DESCRIPTION</b>	<b>TOTAL</b>	<b>CUSTOMER CLASS</b>		
			<b>RESID.</b>	<b>COMM.</b>	<b>IRRIG.</b>
D-1	Winter Peak Demand	100.000%	70.789%	29.164%	0.047%
CM-1	Commodity	100.000%	70.037%	29.804%	0.159%
C-1	Customer - Weighted	100.000%	85.975%	13.554%	0.471%
C-2	Customer - Unweighted	100.000%	94.884%	4.986%	0.130%

**SCHEDULE H-1**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS**  
**SUMMARY OF REVENUES BY CUSTOMER CLASS**  
**PRESENT AND PROPOSED RATES**  
**TEST FISCAL YEAR SEPTEMBER 30, 2008**

	REVENUES IN TEST YEAR		PROPOSED INCREASE	
	PRESENT	PROPOSED	AMOUNT	%
	( a )	( a )	( b )	( b )
RESIDENTIAL	2,759,417	3,197,875	438,458	15.89%
IRRIGATION	5,493	5,790	298	5.42%
COMMERCIAL	979,622	1,021,355	41,733	4.26%
<b>TOTAL</b>	<b>3,744,531</b>	<b>4,225,020</b>	<b>480,489</b>	<b>12.83%</b>

February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
ANALYSIS OF REVENUE BY DETAIL CLASS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

<u>CLASS OF SERVICE</u>	<u>ANNUAL AVERAGES</u>		<u>REVENUES</u>		<u>INCREASE</u>	
	<u>CUSTOMERS</u>	<u>THERMS</u>	<u>PRESENT</u> <u>(a)</u>	<u>PROPOSED</u> <u>(a)</u>	<u>AMOUNT</u> <u>(a)</u>	<u>PERCENT</u> <u>(a)</u>
<b><u>RESIDENTIAL :</u></b>						
SCHEDULE A	4,802	427.86	2,759,417	3,197,875	438,458	15.89%
<b><u>IRRIGATION :</u></b>						
SCHEDULE I	7	706	5,493	5,790	298	5.42%
<b><u>COMMERCIAL :</u></b>						
SCHEDULE B	252	3,465	979,622	1,021,355	41,733	4.26%
<b>TOTAL</b>	<b>5,061</b>	<b>4,599</b>	<b>3,744,531</b>	<b>4,225,020</b>	<b>480,489</b>	<b>12.83%</b>

**RECAP SCHEDULES:**

(a) H-1	21520
	<u>3,766,051</u>

**SCHEDULE H-3**

Page 1 of 1

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
CHANGE IN REPRESENTATIVE RATE SCHEDULES  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

<b>RATE SCHEDULE</b>	<b><u>BLOCK</u></b>	<b>RATES PRESENT (a)</b>	<b>RATES PROPOSED (b)</b>	<b><u>CHANGE</u></b>	<b><u>%</u></b>
<b><u>RESIDENTIAL</u></b>					
A	ALL THERMS	0.82500	1.13912	0.31412	38.08%
	PGA	0.17757	-	(0.17757)	-100.00%
	SERVICE AVAILABILITY	10.50000	15.00000	4.50000	42.86%
<b><u>IRRIGATION</u></b>					
I	ALL THERMS	0.69000	0.88749	0.19749	28.62%
	PGA	0.17757	-	(0.17757)	-100.00%
	SERVICE AVAILABILITY	17.00000	22.50000	5.50000	32.35%
<b><u>COMMERCIAL</u></b>					
B	ALL THERMS	0.83100	1.08660	0.25560	30.76%
	PGA	0.17757	-	(0.17757)	-100.00%
	SERVICE AVAILABILITY	18.00000	23.50000	5.50000	30.56%

**SUPPORTING SCHEDULES:**

(a) TARIFF SCHEDULES EFFECTIVE 16/2//01 - DECISION NO. 63850

(b) H-3-1 PROPOSED TARIFF SCHEDULES

**SCHEDULE H-4**

Page 1 of 3

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TYPICAL BILL ANALYSIS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

<u>RESIDENTIAL</u>	<u>MONTHLY THERMS</u>	<u>PRESENT</u>	<u>MONTHLY BILL PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
A	10	20.53	26.39	5.87	28.58%
	20	30.55	37.78	7.23	23.67%
	30	40.58	49.17	8.60	21.19%
	36	46.59	56.01	9.42	20.21%
	40	50.60	60.56	9.96	19.69%
	50	60.63	71.96	11.33	18.68%
	75	85.69	100.43	14.74	17.20%
	100	110.76	128.91	18.16	16.39%
	125	135.82	157.39	21.57	15.88%
	150	160.89	185.87	24.98	15.53%
	200	211.01	242.82	31.81	15.07%
	250	261.14	299.78	38.64	14.80%
	300	311.27	356.74	45.47	14.61%
	400	411.53	470.65	59.12	14.37%
	500	511.79	584.56	72.78	14.22%
	750	762.43	869.34	106.91	14.02%
	1000	1013.07	1154.12	141.05	13.92%

**SCHEDULE H-4**

Page 2 of 3

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TYPICAL BILL ANALYSIS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

MONTHLY MONTHLY BILL					
<u>IRRIGATION</u>	<u>THERMS</u>	<u>PRESENT</u>	<u>PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
I	10	25.68	31.37	5.70	22.20%
	25	38.69	44.69	6.00	15.50%
	50	60.38	66.87	6.50	10.76%
	59	68.19	74.86	6.68	9.79%
	75	82.07	89.06	6.99	8.52%
	100	103.76	111.25	7.49	7.22%
	125	125.45	133.44	7.99	6.37%
	150	147.14	155.62	8.49	5.77%
	175	168.83	177.81	8.99	5.32%
	200	190.51	200.00	9.48	4.98%
	250	233.89	244.37	10.48	4.48%
	300	277.27	288.75	11.48	4.14%
	350	320.65	333.12	12.47	3.89%
	400	364.03	377.50	13.47	3.70%
	450	407.41	421.87	14.46	3.55%
	500	450.79	466.25	15.46	3.43%
	750	667.68	688.12	20.44	3.06%
	1000	884.57	909.99	25.42	2.87%
	1250	1101.47	1131.86	30.40	2.76%
	1500	1318.36	1353.74	35.38	2.68%
	1750	1535.25	1575.61	40.36	2.63%
	2000	1752.15	1797.48	45.34	2.59%
	2500	2185.93	2241.23	55.30	2.53%
	3000	2619.72	2684.97	65.25	2.49%
	4000	3487.29	3572.47	85.17	2.44%
	5000	4354.87	4459.96	105.09	2.41%



**SCHEDULE H-4**

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Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
TYPICAL BILL ANALYSIS  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

<u>COMMERCIAL</u>	<u>MONTHLY THERMS</u>	<u>MONTHLY BILL PRESENT</u>	<u>PROPOSED</u>	<u>\$ INCREASE</u>	<u>% INCREASE</u>
B	10	28.09	34.37	6.28	22.36%
	20	38.17	45.23	7.06	18.50%
	50	68.43	77.83	9.40	13.74%
	100	118.86	132.16	13.30	11.19%
	150	169.29	186.49	17.20	10.16%
	200	219.71	240.82	21.11	9.61%
	250	270.14	295.15	25.01	9.26%
	289	309.48	337.53	28.05	9.06%
	300	320.57	349.48	28.91	9.02%
	350	371.00	403.81	32.81	8.84%
	400	421.43	458.14	36.71	8.71%
	450	471.86	512.47	40.61	8.61%
	500	522.29	566.80	44.52	8.52%
	750	774.43	838.45	64.02	8.27%
	1,000	1,026.57	1,110.10	83.53	8.14%
	1,250	1,278.72	1,381.75	103.04	8.06%
	1,500	1,530.86	1,653.41	122.55	8.01%
	1,750	1,783.00	1,925.06	142.05	7.97%
	2,000	2,035.15	2,196.71	161.56	7.94%
	2,500	2,539.43	2,740.01	200.58	7.90%

**SCHEDULE H-5**

Page 1 of 3

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2008**

**RESIDENTIAL**

<b>THERM RANGE</b>	<b>NUMBER OF BILLS</b>	<b>THERMS BY BLOCK</b>	<b><u>CUMULATIVE BILLS</u></b>		<b><u>CUMULATIVE THERM USAGE</u></b>	
			<b><u>NUMBER</u></b>	<b><u>% OF TOTAL</u></b>	<b><u>THERMS</u></b>	<b><u>% OF TOTAL</u></b>
0-10	14,624	85,120	14,624	25.38%	85,120	4.14%
11-20	14,316	216,279	28,940	50.22%	301,399	14.67%
21-30	8,234	204,094	37,174	64.51%	505,493	24.60%
31-50	7,208	282,795	44,382	77.02%	788,288	38.37%
51-100	8,841	634,375	53,223	92.37%	1,422,663	69.25%
101-150	3,124	373,701	56,347	97.79%	1,796,364	87.44%
151-200	887	151,617	57,234	99.33%	1,947,981	94.82%
OVER 200	387	106,518	57,621	100.00%	2,054,499	100.00%
<b>TOTAL</b>	<b>57,621</b>	<b>2,054,499</b>				

AVERAGE NUMBER OF CUSTOMERS

**4,802**

AVERAGE THERMS USED PER YEAR

**428**

**SCHEDULE H-5**

Page 2 of 3

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
IRRIGATION**

<b>BLOCK</b>	<b>NUMBER OF BILLS</b>	<b>THERMS BY BLOCK</b>	<b><u>CUMULATIVE BILLS</u></b>		<b><u>CUMULATIVE THERMS USAGE</u></b>	
			<b>NUMBER</b>	<b>% OF TOTAL</b>	<b>AMOUNT</b>	<b>% OF TOTAL</b>
0-10	53	47	53	67.09%	47	1.01%
11-20	6	82	59	74.68%	129	2.77%
21-30	2	47	61	77.22%	176	3.78%
31-50	2	82	63	79.75%	258	5.55%
51-100	1	72	64	81.01%	330	7.10%
101-150	5	571	69	87.34%	901	19.37%
151-200	2	372	71	89.87%	1,273	27.37%
OVER 200	8	3,378	79	100.00%	4,651	100.00%
	<b>79</b>	<b>4,651</b>				
<b>AVERAGE NUMBER OF CUSTOMERS</b>				<b>7</b>		
<b>AVERAGE THERMS USED PER YEAR</b>				<b>706</b>		

**SCHEDULE H-5**

Page 3 of 3

Date: February 26, 2009

**GRAHAM COUNTY UTILITIES, INC. - GAS  
BILL COUNT  
TEST FISCAL YEAR SEPTEMBER 30, 2008  
COMMERCIAL**

<b>BLOCK</b>	<b>THERMS</b>		<b>CUMULATIVE BILLS</b>		<b>CUMULATIVE THERMS USAGE</b>	
	<b>NUMBER OF BILLS</b>	<b>BY BLOCK</b>	<b>NUMBER</b>	<b>% OF TOTAL</b>	<b>AMOUNT</b>	<b>% OF TOTAL</b>
0-10	1,074	2,744	1,074	35.47%	2,744	0.31%
11-50	282	40,968	1,356	44.78%	43,712	5.00%
51-100	732	18,642	2,088	68.96%	62,354	7.13%
101-200	153	38,008	2,241	74.01%	100,362	11.48%
201-300	179	69,496	2,420	79.92%	169,858	19.43%
301-500	329	23,828	2,749	90.79%	193,686	22.15%
OVER 500	279	680,582	3,028	100.00%	874,268	100.00%
	<b>3,028</b>	<b>874,268</b>				

**AVERAGE NUMBER OF CUSTOMERS**  
**AVERAGE THERMS USED PER YEAR**

**252**  
**3,465**

## **GRAHAM COUNTY UTILITIES, INC.**

### **RATE SCHEDULE GA - RESIDENTIAL GAS SERVICE**

#### **I. Availability**

Available to all residential customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

#### **II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

#### **III. Rates**

Monthly Service Charge	\$15.00
Commodity Charge - Per Therm for all gas	\$1.13912

#### **IV. Purchased Gas Adjustment**

The base cost of purchased gas is \$.81775 per Therm. Pursuant to the utilities gas adjustment procedure, it may from time to time flow through to customers increases or decreases in this cost, as approved by the Arizona Corporation Commission (ACC).

#### **V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

#### **VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

#### **VII. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

## **GRAHAM COUNTY UTILITIES, INC.**

### **RATE SCHEDULE GB - COMMERCIAL GAS SERVICE**

#### **I. Availability**

Available to all commercial customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

#### **II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

#### **III. Rates**

Monthly Service Charge	\$23.50
Commodity Charge - Per Therm for all gas	\$1.08660

#### **IV. Purchased Gas Adjustment**

The base cost of purchased gas is \$.81775 per Therm. Pursuant to the utility's gas adjustment procedure, it may from time to time flow through to customers increases or decreases in this cost, as approved by the Arizona Corporation Commission (ACC).

#### **V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

#### **VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

#### **VII. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**GRAHAM COUNTY UTILITIES, INC.**

**RATE SCHEDULE GI - IRRIGATION GAS SERVICE**

**I. Availability**

Available to all irrigation customers within the utility's certificated service area where facilities of adequate capacity and pressure are adjacent to the point of delivery.

**II. Applicability**

Applicable to all gas service supplied through one point of delivery and measured through one meter. Not applicable to temporary, standby, supplementary or resale service.

**III. Rates**

Monthly Service Charge	\$22.50
Commodity Charge per Therm for all gas	\$0.88749

**IV. Purchased Gas Adjustment**

The base cost of purchased gas is \$.81775 per Therm. Pursuant to the utility's gas adjustment procedure, it may from time to time flow through to customers increases or decreases in this cost, as approved by the Arizona Corporation Commission (ACC).

**V. Tax Adjustments and Regulatory Assessments**

Total monthly sales for gas service are subject to adjustment for all federal, state and local governmental taxes or levies on such sales and any assessments that are or may be imposed by federal or state regulatory agencies on gas utility gross revenues.

**VI. Conditions of Service**

The terms and conditions for the provision of service to the customer under this rate schedule are subject to the Rules and Regulations of the utility, as approved and modified from time to time by the ACC.

**VII. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION**

**RATES AND CHARGES FOR OTHER SERVICES**

<b><u>I. Description of Service</u></b>	<b><u>Rate</u></b>
Establishment of Service - Regular Hours	\$30.00
Establishment of Service - After Hours	\$50.00
Reconnection of Service - Regular Hours	\$30.00
Reconnection of Service - After Hours	\$50.00
After Hours Service Calls - Consumer Caused	\$70.00
Meter Reread Charge (No Charge for Read Error)	\$10.00
Meter Test Fee	\$10.00
Insufficient Funds Check	\$25.00
Interest Rate on Customer Deposits	6.00%
Late Payment (Per Month & Per Total Bill)	1.50% with \$5.00 minimum

**II. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.



**GRAHAM COUNTY UTILITIES, INC.**

**RATE SCHEDULE PGA - PURCHASED GAS ADJUSTOR**

**I. Applicability**

Applicable to all Therm sales of gas provided to all customers within the utility's certificated service area.

**II. Gas Adjustment Procedure**

The corporation may increase or decrease customer's bills due to variances in the cost of purchased gas from the base cost of purchased gas included in its rate schedules. The Arizona Corporation Commission (ACC) must approve all such increases or decreases. The base cost of gas in current rates is \$.81775 per Therm, as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**III. Purchased Gas Adjustor**

The Purchased Gas Adjustor is set in accordance with the policy prescribed by the ACC in Decision No. and PGA Surcharges approved by the ACC. The current PGA is posted on a Web site maintained by the ACC.

**IV. Effective Date**

This rate schedule is effective for all billings on or after \_\_\_\_\_ as authorized by the ACC in Decision No. \_\_\_\_\_ dated \_\_\_\_\_.

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**GAS DIVISION**

**RULES AND REGULATIONS**

In Accordance With  
Arizona Corporation Commission

## Definitions

In this Article, unless the context otherwise requires, the following definitions shall apply:

1. "Advance in aid of construction." Funds provided to the utility by the applicant under the terms of a main extension agreement the value of which may be refundable.
2. "Applicant." A person requesting the utility to supply gas service.
3. "Application." A request to the utility for gas service, as distinguished from an inquiry as to the availability or charges for such service.
4. "Arizona Corporation Commission." The regulatory authority of the state of Arizona having jurisdiction over public service corporations operating in Arizona.
5. "Billing month." The period between any two regular readings of the utility's meters at approximately 30 day intervals.
6. "Billing period." The time interval between two consecutive meter readings that are taken for billing purposes.
7. "British Thermal Unit." The amount of heat required to raise the temperature of one pound of water one degree Fahrenheit (1° F) at standard conditions.
8. "Btu." British thermal unit.
9. "Commodity charge." The unit of cost per billed usage, as set forth in the utility's tariffs.
10. "Contributions in aid of construction." Funds provided to the utility by the applicant under the terms of a main extension agreement and/or service connection tariff the value of which are not refundable.
11. "Cubic foot"
  - a. In cases where gas is supplied and metered to customers at the standard delivery pressure, a cubic foot of gas is the volume of gas, which at the temperature and pressure existing in the meter, occupies one cubic foot.
  - b. Regardless of the pressure supplied to the customer, the volume of gas metered will be converted to the volume which the gas would occupy at standard conditions of 14.73 pounds per square inch absolute at 60° F.
  - c. The standard cubic foot of gas for testing the gas itself for heating value shall be that volume of gas which, when saturated with water vapor and at a temperature of 60° F and under a pressure equivalent to that of 30 inches of mercury (mercury at 32° F and under standard gravity), occupies one cubic foot.
12. "Ccf." 100 cubic feet.
13. "Curtailed priority." The order in which gas service is to be curtailed to various classifications of customers, as set forth in the utility's tariffs.
14. "Customer." The person or entity in whose name service is rendered, as evidenced by the signature on the application or contract for that service, or by the receipt and/or payment of bills regularly issued in his name regardless of the identity of the actual user of the service.
15. "Customer charge." The amount the customer must pay the utility for the availability of gas service, excluding any gas used, as specified in the utility's tariffs.
16. "Day." Calendar day.
17. "Distribution main." A gas line of the utility from which service lines may be extended to customers.
18. "Elderly." A person who is 62 years of age or older.
19. "Handicapped." A person with a physical or mental condition which substantially contributes to the person's inability to manage his or her own resources, carry out activities of daily living, or protect oneself from neglect or hazardous situations without assistance from others.
20. "Illness." A medical ailment or sickness for which a residential customer obtains a verifiable document from a licensed medical physician stating the nature of the illness and that discontinuance of service would be especially dangerous to the customer's health in the opinion of a licensed medical physician.
21. "Inability to pay." Circumstances where a residential customer:
  - a. Is not gainfully employed and unable to pay, or
  - b. Qualifies for government welfare assistance, but has not begun to receive assistance on the date that he receives his bill and can obtain verification from the government welfare assistance agency, or
  - c. Has an annual income below the published federal poverty level and can produce evidence of this, and
  - d. Signs a declaration verifying that the customer meets one of the above criteria and is either elderly, handicapped, or suffers from an illness.
22. "Interruptible gas service." Gas service that is subject to interruption or curtailment as specified in the utility's tariff.
23. "Main extension." The lines and equipment necessary to extend the existing gas distribution system to provide service to additional customers.
24. "Master meter." An instrument for measuring or recording the flow of gas at a single location where said gas is transported through an underground piping system to tenants or occupants for their individual consumption.
25. "Mcf." 1,000 cubic feet.

26. "Meter." The instrument for measuring and indicating or recording the volume of gas or flow that has passed through it.
27. "Meter tampering." A situation where a meter has been illegally altered. Common examples are meter bypassing and other unauthorized connections.
28. "Minimum charge." The amount the customer must pay for the availability of gas service, including an amount of usage, as specified in the utility's tariffs.
29. "Permanent customer." A customer who is a tenant or owner of a service location who applies for and receives gas service.
30. "Permanent service." Service which, in the opinion of the utility, is of a permanent and established character. The use of gas may be continuous, intermittent, or seasonal in nature.
31. "Person." Any individual, partnership, corporation, governmental agency, or other organization operating as a single entity.
32. "Point of delivery." The point where pipes owned, leased, or under license by a customer connect to the utility's pipes or at the outlet side of the meter.
33. "Premises." All of the real property and apparatus employed in a single enterprise on an integral parcel of land undivided by public streets, alleys or railways.
34. "Residential subdivision." Any tract of land which has been divided into four or more contiguous lots for use for the construction of residential buildings or permanent mobile homes for either single or multiple occupancy.
35. "Residential use." Service to customers using gas for domestic purposes such as space heating, air conditioning, water heating, cooking, clothes drying, and other residential uses and includes use in apartment buildings, mobile home parks, and other multiunit residential buildings.
36. "Restricted apparatus." Apparatus prohibited by the Commission or other governmental agency.
37. "Service area." The territory in which the utility has been granted a Certificate of Convenience and Necessity and is authorized by the Commission to provide gas service.
38. "Service line." A gas pipe that transports gas from a common source of supply (normally a distribution main) to the customer's point of delivery.
39. "Service establishment charge." A charge as specified in the utility's tariffs which covers the cost of establishing a new account.
40. "Service reconnect charge." A charge as specified in the utility's tariffs which must be paid by the customer prior to reestablishment of gas service each time the gas is disconnected for nonpayment or whenever service is discontinued for failure otherwise to comply with the utility's tariffs.
41. "Service reestablishment charge." A charge as specified in the utility's tariffs for service at the same location where the same customer had ordered a service disconnection within the preceding 12-month period.
42. "Single family dwelling." A house, an apartment, a mobile home permanently affixed to a lot, or any other permanent residential unit which is used as a permanent home.
43. "Standard delivery pressure." 0.25 pounds per square inch gauge at the meter or point of delivery.
44. "Tariffs." The documents filed with the Commission which list the services and products offered by the gas company and which set forth the terms and conditions and a schedule of the rates and charges for those services and products.
45. "Temporary service." Service to premises or enterprises which are temporary in character, or where it is known in advance that the service will be of limited duration. Service which, in the opinion of the utility, is for operations of a speculative character is also considered temporary service.
46. "Therm." A unit of heating value, equivalent to 100,000 British thermal units (Btu's).
47. "Third-party notice." A notice sent to an individual or a public entity willing to receive notification of the pending discontinuance of service of a customer of record in order to make arrangements on behalf of said customer satisfactory to the utility.
48. "Utility." The public service corporation providing gas service to the public in compliance with state law. Also referred to as Graham County Utilities, Inc. or GCU.
49. "Weather especially dangerous to health." That period of time commencing with the scheduled termination date when the local weather forecast, as predicted by the National Oceanographic and Administration Service, indicates that the temperature will not exceed 32 degrees Fahrenheit for the next day's forecast. The Commission may determine that any other weather conditions are especially dangerous to health as the need arises.

## **PART I. Certificate of Convenience and Necessity for gas utilities; additions/extensions; abandonments**

### **A. Certificate of Convenience and Necessity**

On October 15, 1989, the Arizona Corporation Commission approved the transfer of the Certificate of Convenience and Necessity to operate as a gas distribution utility in Graham County previously held by General Utilities, Inc. to Graham County Utilities, Inc., effective November 1, 1989.

### **B. Application for discontinuance or abandonment of utility service**

1. Any utility proposing to discontinue or abandon utility service currently in use by the public shall prior to such action obtain authority thereof from the Commission.
2. The utility shall include in the application, studies of past, present and prospective customer use of the subject service, plant or facility as is necessary to support the application.
3. An application shall not be required to remove individual facilities where a customer has requested service discontinuance.

### **C. Membership**

1. A membership application card shall be signed, acknowledging the customer's agreement to pay the required membership fee plus any applicable taxes and to observe such lawful rules, regulations, policies, rates and schedules of the non-profit corporation as are now in force or may hereafter be in force and as are filed and approved by the Commission.
2. In addition to the provisions of these Rules, each member shall be bound by the Articles of Incorporation and By-Laws of the corporation as the same may be amended from time to time.
3. The membership fee and any service connection charge shall be non-transferable.
4. No customer may hold more than one membership and a personal membership shall be held jointly by both husband and wife unless specified to the contrary in writing by both spouses or unless the corporation is given satisfactory evidence that the property of a spouse which is to receive service is the sole and separate property of such spouse.

## **PART II. Establishment of service**

### **A. Information from new applicants**

1. A utility may obtain the following minimum information from each new applicant for service:
  - a. Name or names of applicant(s).
  - b. Service address or location and telephone number.
  - c. Billing address or location and telephone number, if different than service address.
  - d. Address where service was provided previously.
  - e. Date applicant will be ready for service.
  - f. Indication of whether premises have been supplied with utility service previously.
  - g. Purpose for which service is to be used.
  - h. Indication of whether applicant is owner or tenant of or agent for the premises.
  - i. Information concerning the gas usage and demand requirements of the customers.
  - j. Type and kind of life-support equipment, if any, used by the customer.
2. Each utility may require a new applicant for service to appear at the utility's designated place of business to produce proof of identity and sign the utility's application form.
3. Where service is requested by two or more individuals the utility shall have the right to collect the full amount owed to the utility from any one of the applicants.

### **B. Deposits**

1. A utility shall not require a deposit from a new applicant for residential service if the applicant is able to meet any of the following requirements:
  - a. The applicant has had service of a comparable nature with the utility at another service location within the past two years and was not delinquent in payment more than twice during the last 12 consecutive months or disconnected for nonpayment.
  - b. The applicant can produce a letter regarding credit or verification from a gas utility where service of a comparable nature was last received which states that the applicant has had service of a comparable

- nature with the utility at another service location within the past two years and was not delinquent in payment more than twice during the last 12 consecutive months or disconnected for nonpayment.
- c. In lieu of a deposit, a new applicant may provide a Letter of Guarantee from an existing customer with service who is acceptable to the utility or a surety bond as security for the utility.
  2. The utility shall issue a nonnegotiable receipt to the applicant for the deposit. The inability of the customer to produce such a receipt shall in no way impair his right to receive a refund of the deposit which is reflected on the utility's records.
  3. Deposits shall be interest bearing; the interest rate and method of calculation shall be filed with and approved by the Commission in a tariff proceeding. The approved interest rate is six (6) percent per annum.
  4. Each utility shall file a deposit refund procedure with the Commission, subject to Commission review and approval during a tariff proceeding. However, each utility's refund policy shall include provisions for residential deposits and accrued interest to be refunded or Letter of Guarantee or surety bond to expire after 12 months of service if the customer has not been delinquent more than twice in the payment of utility bills.
    - a. Residential deposits will automatically be refunded by Graham County Utilities, Inc. after twelve (12) consecutive months during which time the customer has not been delinquent more than two (2) times in a twelve (12) month period or disconnected for non payment. Upon discontinuance of service, the deposit shall be returned within a reasonable time, but not less than three (3) working days (Monday through Friday excluding Holidays) in which to read its meters and to ascertain that the obligations of the customer have been duly performed. Upon final discontinuance of the use of the service and full settlement of all bills by the customer, any deposit, not previously refunded, with accrued interest, (if any), in accordance with the provisions of this policy will be returned to the customer or at the corporation election, it may be applied to the payment of any unpaid accounts of the customer and the balance, (if any), returned to the customer.
  5. A utility may require a residential customer to establish or reestablish a deposit if the customer becomes delinquent in the payment of three or more bills within a 12-consecutive-month period or has been disconnected for service during the last 12 months.
  6. The amount of a deposit required by the utility shall be determined according to the following terms:
    - a. Residential customer deposits shall not exceed two times that customer's estimated average monthly bill.
    - b. Nonresidential customer deposits shall not exceed 2 1/2 times that customer's estimated maximum monthly bill.
  7. The utility may review the customer's usage after service has been connected and adjust the deposit amount based upon the customer's actual usage.
  7. A separate deposit may be required for each meter installed.
- C. Grounds for refusal of service. A utility may refuse to establish service if any of the following conditions exist:
1. The applicant has an outstanding amount due for the same class of utility service with the utility and the applicant is unwilling to make arrangements with the utility for payment.
  2. A condition exists which in the utility's judgment is unsafe or hazardous to the applicant, the general population, or the utility's personnel or facilities.
  3. Refusal by the applicant to provide the utility with a deposit when the customer has failed to meet the credit criteria for waiver of deposit requirements.
  4. Customer is known to be in violation of the utility's tariffs filed with the Commission.
  5. Failure of the customer to furnish such funds, service, equipment, and/or rights-of-way necessary to serve the customer and which have been specified by the utility as a condition for providing service.
  6. Applicant falsifies his or her identity for the purpose of obtaining service.
- D. Service establishments, reestablishment or reconnection charge
1. A utility may make a charge as approved by the Commission for the establishment, reestablishment, or reconnection of utility services.
  2. Should service be established during a period other than regular working hours at the customer's request, the customer may be required to pay an after-hour charge for the service connection. Where the utility scheduling will not permit service establishment on the same day requested, the customer can elect to pay the after-hour charge for establishment that day or his service will be established on the next available normal working day.
  3. For the purpose of this rule, the definition of service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install a meter, read a meter, or turn the service on.
- E. Temporary service
1. Applicants for temporary service may be required to pay the utility, in advance of service establishment, the estimated cost of installing and removing the facilities necessary for furnishing the desired service.

2. Where the duration of service is to be less than one month, the applicant may also be required to advance a sum of money equal to the estimated bill for service.
3. Where the duration of service is to exceed one month, the applicant may also be required to meet the deposit requirements of the utility.
4. If at any time during the term of the agreement for service the character of a temporary customer's operations changes so that in the opinion of the utility the customer is classified as permanent, the terms of the utility's main extension rules shall apply.

### **PART III. Minimum customer information requirements**

#### **A. Information for residential customers**

1. Each utility shall make available upon customer request not later than 60 days from the date of request a concise summary of the rate schedule applied for by such customer. The summary shall include the following:
  - a. Monthly minimum or customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable.
  - b. Rate blocks, where appropriate.
  - c. Any adjustment factor(s) and method of calculation.
2. The utility shall to the extent practical identify the tariff most advantageous to the customer and notify the customer of such prior to service commencement.
3. In addition, a utility shall make available upon customer request not later than 60 days from the date of request a copy of the Commission's rules and regulations concerning:
  - a. Deposits
  - b. Terminations of service
  - c. Billing and collection
  - d. Complaint handling.
4. Each utility upon request of a customer shall transmit a written statement of actual consumption by such customer for each billing period during the prior 12 months unless such data is not reasonably ascertainable.
5. Each utility shall inform all new customers of their rights to obtain the information specified above.

#### **B. Information required due to changes in tariffs**

1. Each utility shall transmit to affected customers a concise summary of any change in the utility's tariffs affecting those customers.
2. This information shall be transmitted to the affected customer within 60 days of the effective date of the change.

### **PART IV. Master metering**

#### **A. Mobile home parks -- new construction/expansion**

1. A utility shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion is individually metered by the utility. Main extensions and service line connections to serve such new construction or expansion shall be governed by the main extension and/or service line connection tariff of the appropriate utility.
2. Permanent residential mobile home parks for the purpose of this rule shall mean mobile home parks where, in the opinion of the utility, the average length of stay for an occupant is a minimum of six months.
3. For the purposes of this rule, expansion means construction which has been started for additional permanent residential spaces after the effective date of this rule.

### **PART V. Service lines and establishments**

#### **A. Priority and timing of service establishments**

1. After an applicant has complied with the utility's application and deposit requirements and has been accepted for service by the utility, the utility shall schedule that customer for service establishment.
2. Service establishments shall be scheduled for completion within five working days of the date the customer has been accepted for service, except in those instances when the customer requests service establishment beyond the five working day limitation.
3. When the utility has made arrangements to meet with a customer for service establishment purposes and the utility or the customer cannot make the appointment during the prearranged time, the utility shall reschedule the establishment to the satisfaction of both parties.
4. Each utility shall schedule service establishment appointments within a maximum range of four hours during normal working hours, unless another time-frame is mutually acceptable to the utility and the customer.
5. Service establishments shall be made only by qualified utility service personnel.

6. For the purposes of this rule, service establishments are where the customer's facilities are ready and acceptable to the utility and the utility needs only to install or read a meter or turn the service on.

**B. Service lines**

(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. Customer provided facilities
  - a. An applicant for services shall be responsible for the safety and maintenance of all customer piping from the point of delivery.
  - b. Meters shall be installed in a location suitable to the utility where the meters will be safe from street traffic, readily and safely accessible for reading, testing and inspection, and where such activities will cause the least interference and inconvenience to the customer. The customer shall provide, without cost to the utility, at a suitable and easily accessible location, sufficient and proper space for the installation of meters.
  - c. Where the meter or service line location on the customer's premises is changed at the request of the customer or due to alterations on the customer's premises, the customer shall provide and have installed at his expense all customer piping necessary for relocating the meter and the utility may make a charge for moving the meter and/or service line.
  - d. An applicant shall be responsible for all labor, material, and one-half (1/2) the overhead costs of the new service as a non-refundable contribution in aid of construction.
2. Company provided facilities
  - a. Graham County Utilities, Inc. (GCU) does not provide a free footage or equipment allowance.
3. Easements and rights-of-way
  - a. Each customer shall grant adequate easement and right-of-way satisfactory to the utility to ensure proper service connection. Failure on the part of the customer to grant adequate easement and right-of-way shall be grounds for the utility to refuse service.
  - b. When a utility discovers that a customer or his agent is performing work or has constructed facilities adjacent to or within an easement or right-of-way and such work, construction or facility poses a hazard or is in violation of federal, state or local laws, ordinances, statutes, rules or regulations, or significantly interferes with the utility's access to equipment, the utility shall notify the customer or his agent and shall take whatever actions are necessary to eliminate the hazard, obstruction or violation at the customer's expense.

**PART VI. Main extensions**

**A. General requirements**

(Subject to availability of adequate capacity and suitable pressure at the point of beginning of measurement of the extension the Company will extend its distribution facilities as provided hereafter in this section.)

1. Each utility shall file for Commission approval a main extension tariff which incorporates the provisions of this rule and specifically defines the conditions governing main extensions.
2. Upon request by an applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimates of the cost of installation to be paid by said applicant.
3. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall upon request, make available within 90 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant authorizes the utility to proceed with construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimate. Subdividers providing the utility with approved plats shall be provided with plans, specifications or cost estimates within 45 days after receipt of the deposit referred to above.
4. All main extension agreements requiring payment by the applicant shall be in writing and signed by each party.
5. The provisions of this rule apply only to those applicants who in the utility's judgment will be permanent customers of the utility. Applications for temporary service shall be governed by the Commission's rules concerning temporary service applications.

**B. Minimum written agreement requirements**

1. Each main extension agreement shall, at a minimum, include the following information:
  - a. Name and address of applicant(s)



- b. Proposed service address or location
  - c. Description of requested service
  - d. Description and sketch of the requested main extension
  - e. A cost estimate to include materials, labor, and other costs as necessary
  - f. Payment terms
  - g. A concise explanation of any refunding provisions, if applicable. The refunding provisions shall be as follows:
    - I. Where the number of potential services has been determined by final plats.
      - 1. Each subsequent hookup on the line extension after the first customer shall pay a percentage equal to the total cost estimate divided by the number of lots. This amount shall then be refunded to the first customer provided it has not been five years since the time of payment as outlined in rule C-5.
    - II. Where the number of potential services is not readily available and must be estimated by the Cooperative.
      - 1. Each subsequent hookup on the line extension after the first customer shall pay a percentage of the original cost as determined by the distance from the main to the service location. This amount shall then be refunded equally between the prior customers provided it has not been five years since the time of payment as outlined in rule C-5.
  - h. The utility's estimated start date and completion date for construction of the main extension
  - i. A summary of the results of the economic feasibility analysis performed by the utility to determine the amount of advance required from the applicant for the proposed main extension.
2. Each applicant shall be provided with a copy of the written main extension agreement.
- C. Main and Service line extension requirements. Each main line extension shall include the following provisions:
- 1. GCU does not provide a free footage allowance. The applicant shall be responsible for all material, labor, and one-half (1/2) the overhead costs of the main line extension.
  - 2. Line extension measurement shall be along the route of construction required.
  - 3. The timing and methodology by which the utility will refund any aid to construction as additional customers are served off the main extension. The customer may request an annual survey to determine if additional customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally paid.
  - 4. All aid to construction shall be non-interest bearing.
  - 5. All refunding provisions are null and void after five years from the date of payment of the contribution in aid of construction.
- D. Extensions For Residential Subdivision Developments and Mobile Home Parks
- 1. Extensions to the Perimeter of Duly Recorded Real Estate Subdivisions and Mobile Home Parks.
    - a. Gas main extensions will generally be made when mutually agreed upon by the Company and the applicant in areas where the Company does maintain existing facilities for its operating convenience.
    - b. The Applicant shall provide at his expense the trenching, backfilling (including any imported backfill required), compaction, repaving and earth-work in preparation for installation of facilities. At its option, the Company may elect, at the applicants expense, to perform the necessary activities to fulfill the applicants responsibility hereunder provided the expense to the applicant is equal or less than that which would otherwise be borne.
  - 2. Extensions Within Duly Recorded Real Estate Subdivisions and Mobile Home Parks
    - a. Distribution facilities will be constructed by the Company within a duly recorded subdivision or mobile home park in advance of application for service by permanent customers after the Company and the Developer of said subdivision or mobile home park have entered into a written contract which provides for net construction costs to be paid as contributions in aid of construction. Net construction costs shall be all costs furnished by the Company to install such facilities and meters and regulators required including all material, labor, and one-half (1/2) the overhead costs.
    - b. Rights-of-way and easements suitable to the Company must be furnished by the developer at no cost to the Company and in reasonable time to meet service requirements. No facilities shall be installed until the final grades have been established and furnished to the Company. In addition, the easement strips, alleys and streets must be graded to within six (6) inches of final grade by the developer before the Company will commence construction and must be maintained by the developer during construction.
  - 3. There is no free Main and Service Line Extension Footage for Residential Subdivision Developments and Mobile Home Parks.
  - 4. Residential Subdivision Developments and Mobile Home Parks shall be excluded from any refunding provisions.

- E. Residential subdivision development and permanent mobile home parks. Each utility shall submit as a part of its main extension tariff separate provisions for residential subdivision developments and permanent mobile home parks.
- F. Ownership of facilities. Any facilities installed hereunder shall be the sole property of the utility.

#### **PART VII. Provision of service**

- A. Utility responsibility
  1. Each utility shall be responsible for the safe transmission and distribution of gas until it passes the point of delivery to the customer.
  2. Each utility shall be responsible for maintaining in safe operating condition all meters, regulators, service pipe or other fixtures installed on the customer's premises by the utility for the purpose of delivering gas to the customer.
  3. Each utility may, at its option, refuse service until the customer's pipes and appliances have been tested and found to be safe, free from leaks, and in good operating condition. Proof of such testing shall be in the form of a certificate executed by a licensed plumber of local inspector, certifying that the customer's facilities have been tested and are in safe operating condition.
  4. Each utility shall be required to test the customer's piping for leaks when the gas is turned on. If such tests indicate leakage in the customer's piping, the utility shall refuse to provide service until such time as the customer has had the leakage corrected.
- B. Customer responsibility
  1. Each customer shall be responsible for maintaining all customer piping, fixtures and appliances on the customer's side of the point of delivery in safe operating condition.
  2. Each customer shall be responsible for safeguarding all utility property installed in or on the customer's premises for the purpose of supplying utility service.
  3. Each customer shall exercise all reasonable care to prevent loss or damage to utility property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to utility property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the utility for the cost of necessary repairs or replacements.
  4. Each customer shall be responsible for payment for any equipment damage and/or estimated unmetered usage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
  5. Each customer shall be responsible for notifying the utility of any gas leakage identified in the customer's or the utility's equipment.
- C. Continuity of service. Each utility shall make reasonable efforts to supply a satisfactory and continuous level of service. However, no utility shall be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from:
  1. Any cause against which the utility could not have reasonably foreseen or made provision for, i.e., force majeure
  2. Intentional service interruptions to make repairs or perform routine maintenance
  3. Curtailment.
- D. Change in character of service. When a change is made by the utility in the type of service rendered which would adversely affect the efficiency of operation or require the adjustment of the equipment of customers, all customers who may be affected shall be notified by the utility at least 30 days in advance of the change or, if such notice is not possible, as early as feasible. Where adjustments or replacements of the utility's standard equipment must be made to permit use under such changed conditions, adjustments shall be made by the utility without charge to the customers.
- E. Service interruptions
  1. Each utility shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.
  2. Each utility shall make reasonable provisions to meet emergencies resulting from failure of service, and each utility shall issue instructions to its employees covering procedures to be followed in the event of emergency in order to prevent or mitigate interruption or impairment of service.
  3. In the event of a national emergency or local disaster resulting in disruption of normal service, the utility may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

4. When a utility plans to interrupt service for more than four hours to perform necessary repairs or maintenance, the utility shall attempt to inform affected customers at least 24 hours in advance of the scheduled date and estimated duration of the service interruption. Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the customers of the utility.
  5. The Commission shall be notified of interruptions in service affecting the entire system or any major division thereof. The interruption of service and cause shall be reported within one hour after the responsible representative of the utility becomes aware of said interruption by telephone to the Commission and followed by a written report to the Commission.
- F. Heat value standard for natural gas. Each gas utility operating under the jurisdiction of the Commission shall supply gas to its customers with an average total heating value of not less than 900 Btu's per cubic foot. The number of Btu's per cubic foot actually delivered through the customer's meter will vary according to the altitude/elevation of the location where the customer is being provided service.
- G. Standard delivery pressure
1. Each utility shall maintain a standard delivery pressure at the outlet of the customer's meter of approximately 0.25 pounds per square inch gauge subject to variation under load conditions.
  2. In cases where a customer desires service at greater than standard delivery pressure, the utility may supply at its option such greater pressure if and only as long as the furnishing of gas to such customer at higher than standard delivery pressure will not be detrimental to the service of other customers of the utility. The utility reserves the right to lower said delivery pressure or discontinue the delivery of gas at higher pressure at any time upon reasonable notice to the customer. Where service is provided at such higher pressure, the meter volumes shall be corrected to that higher pressure.
- H. Curtailment
1. In the event that the availability of service is so restricted due to severe supply shortages or service curtailments and a reduction of service on a proportionate basis to all customer classes will not maintain the integrity of the total system; priority will first be given to those customers and/or customer classes where health, safety and welfare would be adversely affected.
- I. Construction Standards and Safety
1. Graham County Utilities, Inc. will conform with and be subject to the Federal Safety Standards as adopted by the United States Department of Transportation, Office of Pipeline Safety.
  2. Graham County Utilities, Inc. will report to the Commission all accidents attributed to leakage or explosion of natural gas or fires which result in injury requiring hospitalization, fatality, or property damage estimated to exceed the current dollar amount as specified by R14-5-203 of the Arizona Administrative Code, if said injury, death or damage is attributable to failure or accident involving such utility or if the cause of said leakage, explosion or fire is unknown and might have resulted from failure or accident involving such utility property. The location of all such accidents will be reported within four (4) hours after the responsible representatives of Graham County Utilities, Inc. becomes aware of said accident by telephone to the person holding one of the following positions with the Commission:
    - a) Gas Pipeline Safety Inspector
    - b) Assistant Director of Utilities Division
    - c) Director of Utilities Division
  3. Any accident reported by telephone will be followed by a written report to the Commission.
  4. Graham County Utilities, Inc. has filed an inspection and maintenance plan with the Commission. Any changes in the plan after the initial filing of the plan will be filed with the Commission at least thirty (30) days prior to the proposed effective date of the change.

#### **PART VIII. Meter reading**

- A. Company or customer meter reading
1. Each utility may at its discretion allow for customer reading of meters.
  2. It shall be the responsibility of the utility to inform the customer how to properly read his or her meter.
  3. Where a customer reads his or her own meter, the utility will read the customer's meter at least once every six months.
  4. The utility shall provide the customer with postage-paid cards or other methods to report the monthly reading to the utility.
  5. Each utility shall specify the timing requirements for the customer to submit his or her monthly meter reading to conform with the utility's billing cycle.
  6. In the event the customer fails to submit the reading on time, the utility may issue the customer an estimated bill.

7. Meters shall be read monthly on as close to the same day as practical.
- B. Measuring of service**
1. All gas sold by a utility shall be metered except in the case of gas sold according to a fixed charge schedule or when otherwise authorized by the Commission.
  2. When there is more than one meter at a location, the metering equipment shall be so tagged or plainly marked as to indicate the facilities being metered.
- C. Customer requested rereads**
1. Each utility shall at the request of a customer reread the customer's meter within 10 working days after such request by the customer.
  2. Any rereads may be charged to the customer at a rate on file and approved by the Commission, provided that the original reading was not in error.
  3. When a reading is found to be in error, the reread shall be at no charge to the customer.
- D. Access to customer premises.** Each utility shall at all times have the right of safe ingress to and egress from the customer's premises at all reasonable hours for any purpose reasonably connected with the furnishing of service and the exercise of any and all rights secured to it by law or these rules.
- E. Meter testing and maintenance program**
1. Each utility shall file with the Commission subject to review and approval a plan for routine maintenance and replacement of meters.
    - a. Graham County Utilities, Inc. will do routine testing, maintenance and replacement of meters.
  2. Each utility shall file an annual report with the Commission summarizing the results of the meter maintenance and testing program for that year. At a minimum the report should include the following data:
    - a. Total number of meters tested, at company initiative or upon customer request.
    - b. Number of meters tested which were outside the acceptable error allowance  $\pm 3\%$ .
- F. Customer requested meter tests.** A utility shall test a meter upon customer request, and each utility shall be authorized to charge the customer for such meter test according to the tariff on file and approved by the Commission. However, if the meter is found to be in error by more than 3%, no meter testing fee will be charged to the customer.

#### **PART IX. Billing and collection**

- A. Frequency and estimated bills**
1. Each utility shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than 25 days or more than 35 days.
  2. If the utility is unable to read the meter on the scheduled meter read date, the utility will estimate the consumption for the billing period giving consideration to the following factors where applicable:
    - a. The customer's usage during the same month of the previous year
    - b. The amount of usage during the preceding month.
  3. After the second consecutive month of estimating the customer's bill for reasons other than severe weather, the utility will attempt to secure an accurate reading of the meter.
  4. Failure on the part of the customer to comply with a reasonable request by the utility for access to its meter may lead to the discontinuance of service.
  5. Estimated bills will be issued only under the following conditions:
    - a. Failure of a customer who read his own meter to deliver his meter reading card to the utility in accordance with the requirements of the utility billing cycle.
    - b. Severe weather conditions which prevent the utility from reading the meter.
    - c. Circumstances that make it impossible to read the meter, i.e., locked gates, blocked meters, vicious or dangerous animals, etc.
  6. Each bill based on estimated usage will indicate that it is an estimated bill.
- B. Combining meters, minimum bill information**
1. Each meter at a customer's premises will be considered separately for billing purposes, and the readings of two or more meters will not be combined except those approved by the utility.
  2. Each bill for residential service will contain the following minimum information:
    - a. Date and meter reading at the start of billing period or number of days in the billing period
    - b. Date and meter reading at the end of the billing period
    - c. Billed usage
    - d. Rate schedule number

- e. Utility telephone number
  - f. Customer's name
  - g. Service account number
  - h. Amount due and due date
  - i. Past due amount
  - j. Adjustment factor, where applicable
  - k. Taxes
  - l. The Arizona Corporation Commission and address, thereof.
- C. Billing terms
- 1. All bills for utility services are due and payable no later than 10 days from the date the bill is rendered. Any payment not received within this time-frame shall be considered past due.
  - 2. For purposes of this rule, the date a bill is rendered may be evidenced by:
    - a. The postmark date
    - b. The mailing date
    - c. The billing date shown on the bill (however, the billing date shall not differ from the postmark or mailing date by more than two days).
  - 3. All past due bills for utility services are due and payable within 15 days. Any payment not received within this time-frame shall be considered delinquent.
  - 4. All delinquent bills for which payment has not been received within five days shall be subject to the provisions of the utility's termination procedures.
  - 5. All payments shall be made at or mailed to the office of the utility or to the utility's duly authorized representative.
- D. Applicable tariffs, prepayment, failure to receive, commencement date, taxes
- 1. Each customer shall be billed under the applicable tariff indicated in the customer's application for service.
  - 2. Each utility shall make provisions for advance payment of utility services.
  - 3. Failure to receive bills or notices which have been properly placed in the United States mail shall not prevent such bills from becoming delinquent nor relieve the customer of his obligations therein.
  - 4. Charges for service commence when the service is installed and connection made, whether used or not.
- E. Meter error corrections
- 1. If any meter after testing is found to be more than 3% in error, either fast or slow, proper correction between 3% and the amount of the error shall be made of previous readings and adjusted bills shall be rendered according to the following terms:
    - a. For the period of three months immediately preceding the removal of such meter from service for test or from the time the meter was in service since last tested, but not exceeding three months since the meter shall have been shown to be in error by such test.
    - b. From the date the error occurred, if the date of the cause can be definitely fixed.
  - 2. No adjustment shall be made by the utility except to the customer last served by the meter tested.
- F. Insufficient funds (NSF) checks
- 1. A utility shall be allowed to recover a fee, as approved by the Commission in a tariff proceeding, for each instance where a customer tenders payment for utility service with an insufficient funds check.
  - 2. When the utility is notified by the customer's bank that there are insufficient funds to cover the check tendered for utility service, the utility may require the customer to make payment in cash, by money order, certified check, or other means which guarantee the customer's payment to the utility.
  - 3. A customer who tenders an insufficient check shall in no way be relieved of the obligation to render payment to the utility under the original terms of the bill nor defer the utility's provision for termination of service for nonpayment of bills.
- G. Levelized billing plan
- 1. Each utility may, at its option, offer its residential customers a levelized billing plan.
  - 2. Each utility offering a levelized billing plan shall develop upon customer request an estimate of the customer's levelized billing for a 12-month period based upon:
    - a. Customer's actual consumption history, which may be adjusted for abnormal conditions such as weather variations.
    - b. For new customers, the utility will estimate consumption based on the customer's anticipated load requirements.
    - c. The utility's tariff schedules approved by the Commission applicable to that customer's class of service.

3. The utility shall provide the customer a concise explanation of how the levelized billing estimate was developed, the impact of levelized billing on a customer's monthly utility bill, and the utility's right to adjust the customer's billing for any variation between the utility's estimated billing and actual billing.
  4. For those customers being billed under a levelized billing plan, the utility shall show, at a minimum, the following information on the customer's monthly bill:
    - a. Actual consumption
    - b. Amount due for actual consumption
    - c. Levelized billing amount due
    - d. Accumulated variation in actual versus levelized billing amount.
  5. The utility may adjust the customer's levelized billing in the event the utility's estimate of the customer's usage and/or cost should vary significantly from the customer's actual usage and/or cost; such review to adjust the amount of the levelized billing may be initiated by the utility or upon customer request.
- H. Elevation/pressure adjustment.** Each gas utility shall, as a part of a general rate proceeding, file an adjustment factor to be applied to customer meter recordings to adjust for differences in pressure due to elevation.
- I. Deferred payment plan**
1. Each utility may, prior to termination, offer to qualifying residential customers a deferred payment plan for the customer to retire unpaid bills for utility service.
  2. Each deferred payment agreement entered into by the utility and the customer due to the customer's inability to pay an outstanding bill in full shall provide that service will not be discontinued if:
    - a. Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement.
    - b. Customer agrees to pay all future bills for utility service in accordance with the billing and collection tariffs of the utility.
    - c. Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments over a period not to exceed six months.
  3. For the purposes of determining a reasonable installment payment schedule under these rules, the utility and the customer shall give consideration to the following conditions:
    - a. Size of the delinquent account
    - b. Customer's ability to pay
    - c. Customer's payment history
    - d. Length of time that the debt has been outstanding
    - e. Circumstances which resulted in the debt being outstanding
    - f. Any other relevant factors related to the circumstances of the customer.
  4. Any customer who desires to enter into a deferred payment agreement shall establish such agreement prior to the utility's scheduled termination date for nonpayment of bills; customer failure to execute a deferred payment agreement prior to the scheduled termination date shall not prevent the utility from discontinuing service for nonpayment.
  5. Deferred payment agreements may be in writing and may be signed by the customer and an authorized utility representative.
  6. A deferred payment agreement may include a finance charge as approved by the Commission in a tariff proceeding.
  7. If a customer has not fulfilled the terms of a deferred payment agreement, the utility shall have the right to disconnect service pursuant to the utility's termination of service rules and, under such circumstances, it shall not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.
- J. Change of occupancy**
1. Not less than three working days advance notice must be given in person, in writing, or by telephone at the utility's office to discontinue service or to change occupancy.
  2. The outgoing party shall be responsible for all utility services provided and/or consumed up to the scheduled turn-off date.

#### **PART X. Termination of service**

- A. Nonpermissible reasons to disconnect service.** A utility may not disconnect service for any of the reasons stated below:
1. Delinquency in payment for services rendered to a prior customer at the premises where service is being provided, except in the instance where the prior customer continues to reside on the premises.
  2. Failure of the customer to pay for services or equipment which are not regulated by the Commission.
  3. Nonpayment of a bill related to another class of service.

4. Failure to pay for a bill to correct a previous underbilling due to an inaccurate meter or meter failure if the customer agrees to pay over a reasonable period of time.
  5. A utility shall not terminate residential service where the customer has an inability to pay and:
    - a. The customer can establish through medical documentation that, in the opinion of a licensed medical physician, termination would be especially dangerous to the customer or a permanent resident residing on the customer's premises health, or
    - b. Life supporting equipment used in the home that is dependent on utility service for operation of such apparatus, or
    - c. Where weather will be especially dangerous to health as defined herein or as determined by the Commission.
  6. Residential service to ill, elderly, or handicapped persons who have an inability to pay will not be terminated until all of the following have been attempted:
    - a. The customer has been informed of the availability of funds from various government and social assistance agencies
    - b. A third party previously designated by the customer has been notified and has not made arrangements to pay the outstanding utility bill.
  7. A customer utilizing the provisions of subsection (A)(5) or (6) may be required to enter into a deferred payment agreement with the utility within 10 days after the scheduled termination date.
  8. Failure to pay the bill of another customer as guarantor thereof.
  9. Disputed bills where the customer has complied with the Commission's rules on customer bill disputes.
- B. Termination of service without notice**
1. Utility service may be disconnected without advance written notice under the following conditions:
    - a. The existence of an obvious hazard to the safety or health of the consumer or the general population.
    - b. The utility has evidence of meter tampering or fraud.
    - c. Failure of a customer to comply with the curtailment procedures imposed by a utility during supply shortages.
  2. The utility shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the utility.
  3. Each utility shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of one year and shall be available for inspection by the Commission.
- C. Termination of service with notice**
1. A utility may disconnect service to any customer for any reason stated below provided the utility has met the notice requirements established by the Commission:
    - a. Customer violation of any of the utility's tariffs.
    - b. Failure of the customer to pay a delinquent bill for utility service.
    - c. Failure to meet or maintain the utility's deposit requirements.
    - d. Failure of the customer to provide the utility reasonable access to its equipment and property.
    - e. Customer breach of a written contract for service between the utility and customer.
    - f. When necessary for the utility to comply with an order of any governmental agency having such jurisdiction.
  2. Each utility shall maintain a record of all terminations of service with notice. This record shall be maintained for one year and be available for Commission inspection.
- D. Termination notice requirements**
1. No utility shall terminate service to any of its customers without providing advance written notice to the customer of the utility's intent to disconnect service, except under those conditions specified where advance written notice is not required.
  2. Such advance written notice shall contain, at a minimum, the following information:
    - a. The name of the person whose service is to be terminated and the address where service is being rendered.
    - b. The utility tariff that was violated and explanation thereof or the amount of the bill which the customer has failed to pay in accordance with the payment policy of the utility, if applicable.
    - c. The date on or after which service may be terminated.
    - d. A statement advising the customer that the utility's stated reason for the termination of services may be disputed by contacting the utility at a specific address or phone number, advising the utility of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the utility in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the utility shall retain the option to terminate service after affording this opportunity for a meeting and concluding that the reason for termination is just and advising the customer of his right to file a complaint with the Commission.

3. Where applicable, a copy of the termination notice will be simultaneously forwarded to designated third parties.
- E. Timing of terminations with notice
1. Each utility shall be required to give at least five days' advance written notice prior to the termination date.
  2. Such notice shall be considered to be given to the customer when a copy thereof is left with the customer or posted first class in the United States mail, addressed to the customer's last known address.
  3. If after the period of time allowed by the notice has elapsed and the delinquent account has not been paid nor arrangements made with the utility for the payment thereof or in the case of a violation of the utility's rules the customer has not satisfied the utility that such violation has ceased, the utility may then terminate service on or after the day specified in the notice without giving further notice.
  4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the utility.
  5. The utility shall have the right (but not the obligation) to remove any or all of its property installed on the customer's premises upon the termination of service.
- F. Landlord/tenant rule. In situations where service is rendered at an address different from the mailing address of the bill or where the utility knows that a landlord/tenant relationship exists and that the landlord is the customer of the utility, and where the landlord as a customer would otherwise be subject to disconnection of service, the utility may not disconnect service until the following actions have been taken:
1. Where it is feasible to so provide service, the utility, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in his or her own name. If the occupant then declines to so subscribe, the utility may disconnect service pursuant to the rules.
  2. A utility shall not attempt to recover from a tenant or condition service to a tenant with the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

## **PART XI. Administrative and Hearing Requirements**

- A. Customer service complaints
1. Each utility shall make a full and prompt investigation of all service complaints made by its customers, either directly or through the Commission.
  2. The utility shall respond to the complainant and/or the Commission representative within five working days as to the status of the utility investigation of the complaint.
  3. The utility shall notify the complainant and/or the Commission representative of the final disposition of each complaint. Upon request of the complainant or the Commission representative, the utility shall report the findings of its investigation in writing.
  4. The utility shall inform the customer of his right of appeal to the Commission.
  5. Each utility shall keep a record of all written service complaints received which shall contain, at a minimum, the following data:
    - a. Name and address of the complainant
    - b. Date and nature of the complaint
    - c. Disposition of the complaint
    - d. A copy of any correspondence between the utility, the customer, and/or the Commission.
 This record shall be maintained for a minimum period of one year and shall be available for inspection by the Commission.
- B. Customer bill disputes
1. Any utility customer who disputes a portion of a bill rendered for utility service shall pay the undisputed portion of the bill and notify the utility's designated representative that such unpaid amount is in dispute prior to the delinquent date of the bill.
  2. Upon receipt of the customer notice of dispute, the utility shall:
    - a. Notify the customer within five working days of the receipt of a written dispute notice.
    - b. Initiate a prompt investigation as to the source of the dispute.
    - c. Withhold disconnection of service until the investigation is completed and the customer is informed of the results. Upon request of the customer the utility shall report the results of the investigation in writing.
    - d. Inform the customer of his right of appeal to the Commission.
  3. Once the customer has received the results of the utility's investigation, the customer shall submit payment within five working days to the utility for any disputed amounts. Failure to make full payment shall be grounds for termination of service.
- C. Commission resolution of service and/or bill disputes



1. In the event a customer and utility cannot resolve a service and/or bill dispute, the customer shall file a written statement of dissatisfaction with the Commission; by submitting such notice to the Commission, the customer shall be deemed to have filed an informal complaint against the utility.
  2. Within 30 days of the receipt of a written statement of customer dissatisfaction related to a service or bill dispute, a designated representative of the Commission shall endeavor to resolve the dispute by correspondence and/or telephone with the utility and the customer. If resolution of the dispute is not achieved within 20 days of the Commission representative's initial effort, the Commission shall hold an informal hearing to arbitrate the resolution of the dispute. The informal hearing shall be governed by the following rules:
    - a. Each party may be represented by legal counsel, if desired.
    - b. All such informal hearings may be recorded or held in the presence of a stenographer.
    - c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties.
    - d. All parties and the Commission's representative shall be given the opportunity for cross-examination of the various parties.
    - e. The Commission's representative will render a written decision to all parties within five working days after the date of the informal hearing. Such written decision of the arbitrator is not binding on any of the parties and the parties will still have the right to make a formal complaint to the Commission.
  3. The utility may implement normal termination procedures if the customer fails to pay all bills rendered during the resolution of the dispute by the Commission.
  4. Each utility shall maintain a record of written statements of dissatisfaction and their resolution for a minimum of one year and make such records available for Commission inspection.
- D. Notice by utility of responsible officer or agent**
1. Each utility shall file with the Commission a written statement containing the name, address (business, residence and post office) and telephone numbers (business and residence) of at least one officer, agent or employee responsible for the general management of its operations as a utility in Arizona.
  2. Each utility shall give notice, by filing a written statement with the Commission, of any change in the information required herein within five days from the date of any such change.
- E. Time-frames for processing applications for Certificates of Convenience and Necessity**
1. This rule prescribes time-frames for the processing of any application for a Certificate of Convenience and Necessity issued by the Arizona Corporation Commission pursuant to this Article. These time-frames shall apply to applications filed on or after the effective date of this rule.
  2. Within 120 calendar days after receipt of an application for a new Certificate of Convenience and Necessity, or to amend or change the status of any existing Certificate of Convenience and Necessity, staff shall notify the applicant, in writing, that the application is either administratively complete or deficient. If the application is deficient, the notice shall specify all deficiencies.
  3. Staff may terminate an application if the applicant does not remedy all deficiencies within 60 calendar days of the notice of deficiency.
  4. After receipt of a corrected application, staff shall notify the applicant within 30 calendar days if the corrected application is either administratively complete or deficient. The time-frame for administrative completeness review shall be suspended from the time the notice of deficiency is issued until staff determines that the application is complete.
  5. Within 150 days after an application is deemed administratively complete, the Commission shall approve or reject the application.
  6. For purposes of A.R.S. § 41-1072 et seq., the Commission has established the following time-frames:
    - a. Administrative completeness review time-frame: 120 calendar days,
    - b. Substantive review time-frame: 150 calendar days,
    - c. Overall time-frame: 270 calendar days.
  7. If an applicant requests, and is granted, an extension or continuance, the appropriate time-frames shall be tolled from the date of the request during the duration of the extension or continuance.
  8. During the substantive review time-frame, the Commission may, upon its own motion or that of any interested party to the proceeding, request a suspension of the time-frame rules.
- F. Filing tariffs**
1. Each utility shall file with the Commission tariffs which are in compliance with the rules and regulations promulgated by the Arizona Corporation Commission within 120 days of the effective date of such rules.
  2. Each utility shall file with the Commission any proposed changes to the tariffs on file with the Commission; such proposed changes shall be accompanied by a statement of justification supporting the proposed tariff change.

3. Any proposed change to the tariffs on file with the Commission shall not be effective until reviewed and approved by the Commission.
- G. Accounts and records**
1. Each utility shall keep general and auxiliary accounting records reflecting the cost of its properties, operating income and expense, assets and liabilities, and all other accounting and statistical data necessary to give complete and authentic information as to its properties and operations.
  2. Each utility shall maintain its books and records in conformity with the Uniform Systems of Accounts for Class A, B, C and D Gas Utilities as adopted and amended by the Federal Energy Regulatory Commission.
  3. A utility shall produce or deliver in this state any or all of its formal accounting records and related documents requested by the Commission. It may, at its option, provide verified copies of original records and documents.
  4. All utilities shall submit an annual report to the Commission on a form prescribed by it. The annual report shall be filed on or before the 15th day of April for the preceding calendar year. Reports prepared by a certified or licensed public accountant on the utility, if any, shall accompany the annual report.
  5. All utilities shall file with the Commission a copy of all reports required by the Securities and Exchange Commission.
  6. All utilities shall file with the Commission a copy of all annual reports required by the Federal Energy Regulatory Commission.
- H. Maps.** All utilities shall file with the Commission a map or maps clearly setting forth the location and extent of the area or areas they hold under approved certificates of convenience and necessity, in accordance with the Cadastral (Rectangular) Survey of the United States Bureau of Land Management, or by metes and bounds with a starting point determined by the aforesaid Cadastral Survey.
- I. Variations, exemptions of Commission rules and regulations.** Variations or exemptions from the terms and requirements of any of the rules included herein (Title 14, Chapter 2, Article 3) shall be considered upon the verified application of an affected party to the Commission setting forth the circumstances whereby the public interest requires such variation or exemption from the Commission rules and regulations. Such application will be subject to the review of the Commission, and any variation or exemption granted shall require an order of the Commission. In case of conflict between these rules and regulations and an approved tariff or order of the Commission, the provisions of the tariff or order shall apply.
- J. Prior agreements.** The adoption of these rules by the Commission shall not affect any agreements entered into between the utility and customers or other parties who, pursuant to such contracts, arranged for the extension of facilities in a provision of service prior to the effective date of these rules.

## **PART XII. Intermittent gas ignition**

- A. Application and scope.** The provisions of this rule are applicable to the following types of gas appliances:
1. All residential gas-fired space heating equipment requiring electrical supply for operation,
  2. All residential gas-fired clothes dryers,
  3. All residential gas-fired household cooking appliances having an electrical supply cord or electrical junction box,
  4. All residential gas-fired air conditioners,
  5. All residential decorative gas lots which are automatically ignited and require electrical supply for operation,
  6. All residential vented decorative gas appliances which are automatically lighted and require electrical supply for operation.
- B. Prohibition of distribution, sales and installation**
1. No person shall cause to be distributed, sold or installed in this state a newly produced gas appliance subject to this rule which has not been certified by the Commission. This prohibition shall not take effect for any particular type of gas appliance until 24 months after at least one model of that type of appliance has been certified by the Commission.
  2. All gas appliances certified by the Commission shall have the statement, "This appliance is equipped with an intermittent type ignition device" or "Equipped with IID" or "IID Equipped" on the rating plate.
- C. Definitions.** For the purpose of this rule, and unless otherwise indicated, the following definitions shall apply in addition to those definitions shown in Title 40, Section 1, Chapter 7, Article 1, Paragraph 40-1201, of the A.R.S.:
1. "Certified by the Commission" means that the Commission has acknowledged receipt of one of the following for an appliance equipped with an intermittent type ignition device; a photostatic copy of the A.G.A. Appliance Certificate or the UL Listing Certificate; a listing of the appliance in the A.G.A. "Directory of Certified Appliances and Accessories" or the UL "Gas and Oil Equipment List"; or a certified test report

from a recognized independent testing laboratory acceptable to the Commission stating that the appliance has been tested and conforms to the applicable American National Standards as mentioned below.

2. "Newly produced" means not previously used for the purpose for which designed or any other related purpose and constructed entirely of new unused parts and materials.
  3. "Rating plate" means a plate, or combination of adjacent plates located so as to be easily read when the appliance is in a normally installed position.
- D. Gas-fired space heating equipment.
1. Except as otherwise provided, all intermittent type ignition devices used on gas-fired space heating equipment shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.20-1975, Automatic Gas Ignition Systems and Components.
  2. Except as otherwise provided, gas-fired space heating equipment shall be certified by the Commission if it complies with one of the standards approved by the American National Standards Institute, Inc., known as:
    - a. ANSI Z21.47-1973-Gas-Fired Gravity and Forced Air Central Furnaces, addenda Z21.47a-1974, and addenda Z21.47b-1975.
    - b. ANSI Z21-11.1-1974-Vented Room Heaters, addenda Z21.11.1a-1975 and addenda Z21.11.1b-1976.
    - c. ANSI Z21.13-1974-Gas-Fired Low-Pressure Steam and Hot Water Boilers, and addenda Z21.13a-1976.
    - d. ANSI Z21.44-1977-Gas-Fired Gravity and Fan Type Sealed Combustion System Wall Furnaces.
    - e. ANSI Z21.49-1975-Gas-Fired Gravity and Fan Type Vented Wall Furnaces and addenda Z21.49a-1977.
    - f. ANSI Z21.48-1973-Gravity and Fan Type Floor Furnaces and addenda Z21.48a-1974 and addenda Z21.48b-1975.
- E. Gas clothes dryers.
1. Except as otherwise provided, all intermittent type ignition devices used on gas clothes dryers shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.20-1975-Automatic Gas Ignition Systems and Components.
  2. Except as otherwise provided, gas clothes dryers shall be certified by the Commission, if they comply with the standards approved by the American National Standards Institute, Inc., known as ANSI Z21.5.1-1975-Type 1 Clothes Dryers.
- F. Household cooking gas appliances.
1. Except as otherwise provided, all intermittent type ignition devices used on a household cooking gas appliance shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.20-1975-Automatic Gas Ignition Systems and Component.
  2. Except as otherwise provided, household cooking gas appliances shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.1-1974-Household Cooking Appliances, addenda Z21.1a-1974, and addenda Z21.1b-1976.
- G. Gas-fired air conditioners.
1. Except as otherwise provided, all intermittent type ignition devices used on a gas-fired air conditioner shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.20-1975-Automatic Gas Ignition Systems and Components.
  2. Except as otherwise provided, gas-fired air conditioners shall be certified by the Commission, if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.40.1-1973-Gas-Fired Absorption Summer Air Conditioning Appliances, and addenda Z21.40.1a-1974.
- H. Decorative gas logs.
1. Shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.20-1975-Automatic Gas Ignition Systems and Components.
  2. Except as otherwise provided, gas-fired decorative gas logs shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.60-1975-Decorative Gas Appliances for Installation in Vented Fireplaces and addenda Z21.60a-1976.
- I. Vented decorative gas appliances.
1. Shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.20-1975-Automatic Gas Ignition Systems and Components.
  2. Except as otherwise provided, gas-fired vented decorative appliances shall be certified by the Commission if they comply with the standards approved by the American National Standards Institute, Inc., known as: ANSI Z21.50-1973-Vented Decorative Gas Appliances, addenda Z21.50a-1974 and addenda Z21.50b-1974.

- J. The statement mentioned in subsection (B)(2) which is required on the rating plate will be the Seal of Certification for Arizona. The rating plate will be furnished and applied and distributed by the manufacturer.
- K. The Utilities Division of this Commission is charged with the duty of maintaining the records necessary for the control of the Certification Program and will notify manufacturers in accordance with paragraph 40-1204, Article 1, Chapter 7, Title 40 of the Arizona Revised Statutes.
- L. Variance. Variation from the terms and conditions of this rule shall be permitted only upon the verified application of an affected party to the Commission, setting forth the circumstances whereby the public interest requires such variation, and upon the issuance of a special Order of the Commission. The Commission may require an application for such variation to be presented in a public hearing.

**FINANCIAL AND STATISTICAL REPORT**
**GRAHAM COUNTY UTILITIES, INC.**  
**GAS SYSTEM**  
**PIMA, AZ 85543**

Round ALL AMOUNTS to nearest dollar.

**MONTH ENDING**  
**December 31, 2008**
**CERTIFICATION**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.


**SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT**

1-29-09

**DATE**

**SIGNATURE OF MANAGER**

1-29-09

**DATE**
**PART A. STATEMENT OF OPERATIONS**
**DECEMBER**

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,617,618	3,727,437	3,551,992	445,586
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	2,275,031	2,350,576	2,200,727	308,770
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	276,923	297,846	295,342	26,840
6. Distribution Expense - Maintenance	249,106	321,323	266,019	32,498
7. Consumer Accounts Expense	246,392	278,308	276,928	24,504
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	277,724	419,520	300,549	39,588
11. Total Operation & Maintenance Expense (2 - 10)	3,325,178	3,667,573	3,339,565	432,200
12. Depreciation and Amortization Expense	120,112	131,765	131,890	11,336
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	102,260	89,350	98,729	7,040
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	13,575	30,124	34,046	4,011
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,561,125	3,918,812	3,604,230	454,586
20. Patronage Capital & Operating Margins (1 - 19)	56,493	(191,375)	(52,238)	(9,001)
21. Non Operating Margins - Interest	3,138	1,522	-	211
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	9,372	10,167	9,372	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	69,003	(179,686)	(42,866)	(8,790)

**PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT**

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	81	88			
2. Service Retired		-	6. Miles Distribution	223	226
3. Total Services in Place	5,103	5,191			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	223	226

Form 7

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Page 1 of 2 Pages

**FINANCIAL AND STATISTICAL REPORT****BORROWER DESIGNATION  
GAS SYSTEM****MONTH ENDING****December 31, 2008**

Round ALL AMOUNTS to nearest dollar.

**PART C. BALANCE SHEET**

<b>ASSETS AND OTHER DEBITS</b>			<b>LIABILITIES AND OTHER CREDITS</b>		
1. Total Utility Plant in Service	4,083,557		26. Memberships	28,109	
2. Construction Work in Progress	67,792		27. Patronage Capital	227,316	
3. Total Utility Plant (1 + 2)	4,151,348		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	2,104,272		29. Operating Margins - Current Year	(191,375)	
5. Net Utility Plant (3 -4)	2,047,076		30. Non Operating Margins	11,689	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	75,739	
8. Invest in Assoc Org - General Funds	135,593		33. Long-Term Debt RUS (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	1,266,319	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	135,593		35 Total Long-Term Debt(33 + 34)	1,266,319	
13. Cash - General Funds	-		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	1,305,109	
15. Special Deposits	-		38. Consumers Deposits	68,690	
16. Temporary Investments	-		39. Other Current & Accrued Liabilities	83,098	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	1,456,897	
18. Accounts Receivable - Sales of Gas	257,256		41. Deferred Credits	-	
19. Accounts Receivable - Fuel Bank	232,781		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Gas & Other	91,516		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	16,684		35 + 40 thru 42)	2,798,955	
22. Other Current & Accrued Assets	-		<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>		
23. Total Current & Accrued Assets (13 thru 22)	598,237		Balance Beginning of Year	937,656	
24. Deferred Debits	18,048		Amounts Received This Year (Net)	108,973	
25. Total Assets & Other Debits (5+12+23+24)	2,798,955		TOTAL Contributions in Aid of Construction	1,046,629	

**PART D. CONSUMER SALES AND REVENUE DATA**

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,882	229,311	314,714	2,073,890	2,731,870
2. IRRIGATION SALES	4	85	154	4,626	5,265
3. COMM & INDUSTRIAL	262	107,285	128,897	880,555	968,641
4. TOTAL GAS SALES	5,148	336,681	443,766	2,959,071	3,705,777
5. OTHER GAS REVENUE			1,820		21,660
6. TOTAL	5,148	336,681	445,586	2,959,071	3,727,437

**PART E. GAS STATISTICS**

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	539,960	2,931,440	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	203,279	(27,631)
3. TOTAL PURCHASED	539,960	2,931,440	8. % SYSTEM LOSS	37.65%	-0.94%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	336,681	2,959,071	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

**FINANCIAL AND STATISTICAL REPORT**
**GRAHAM COUNTY UTILITIES, INC.**
**GAS SYSTEM**
**PIMA, AZ 85543**
**MONTH ENDING**
**December 31, 2007**

Round ALL AMOUNTS to nearest dollar.

**CERTIFICATION**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

*Russ Barney*
**SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT**
*1/25/08*
**DATE**
*Steve m Luec.*
**SIGNATURE OF MANAGER**
*1-25-08*
**DATE**
**PART A. STATEMENT OF OPERATIONS**
**DECEMBER**

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	(d)
1. Operating Revenue and Patronage Capital	3,994,397	3,617,618	3,528,442	416,092
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	2,723,492	2,275,031	2,222,107	275,628
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	233,360	276,923	249,149	23,618
6. Distribution Expense - Maintenance	183,526	249,106	201,326	15,541
7. Consumer Accounts Expense	225,293	246,392	256,933	21,366
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	261,411	277,724	284,655	24,556
11. Total Operation & Maintenance Expense (2 - 10)	3,627,082	3,325,178	3,214,170	360,710
12. Depreciation and Amortization Expense	111,911	120,112	117,855	10,585
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	113,681	102,260	107,236	8,842
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	15,742	13,575	30,537	1,890
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	3,868,416	3,561,125	3,469,799	382,027
20. Patronage Capital & Operating Margins (1 - 19)	125,981	56,493	58,643	34,065
21. Non Operating Margins - Interest	6,844	3,138	-	618
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	8,976	9,372	8,976	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	141,801	69,003	67,618	34,683

**PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT**

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	84	81			
2. Service Retired		-	6. Miles Distribution	220	223
3. Total Services in Place	5,022	5,103			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	220	223

Form 7

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Page 1 of 2 Pages

**FINANCIAL AND STATISTICAL REPORT****BORROWER DESIGNATION****GAS SYSTEM****MONTH ENDING****December 31, 2007**

Round ALL AMOUNTS to nearest dollar.

**PART C. BALANCE SHEET**

<b>ASSETS AND OTHER DEBITS</b>			<b>LIABILITIES AND OTHER CREDITS</b>		
1. Total Utility Plant in Service	3,805,203		26. Memberships	27,595	
2. Construction Work in Progress	24,811		27. Patronage Capital	158,313	
3. Total Utility Plant (1 + 2)	3,830,013		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,972,507		29. Operating Margins - Current Year	56,493	
5. Net Utility Plant (3 - 4)	1,857,507		30. Non Operating Margins	12,510	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	254,911	
8. Invest in Assoc Org - General Funds	140,085		33. Long-Term Debt RUS (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$		
10. Other Investments	-		34. Long-Term Debt - Other (net)	1,371,100	
11. Special Funds	-		(Payments - Unapplied \$		
12. Total Other Property & Investments (6 thru 11)	140,085		35 Total Long-Term Debt(33 + 34)	1,371,100	
13. Cash - General Funds	-		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	833,585	
15. Special Deposits	-		38. Consumers Deposits	70,165	
16. Temporary Investments	-		39. Other Current & Accrued Liabilities	57,302	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	961,051	
18. Accounts Receivable - Sales of Gas	275,286		41. Deferred Credits	-	
19. Accounts Receivable - Fuel Bank	156,474		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Gas & Other	109,478		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	25,536		35 + 40 thru 42)	2,587,063	
22. Other Current & Accrued Assets	-		<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>		
23. Total Current & Accrued Assets (13 thru 22)	566,773		Balance Beginning of Year	759,213	
24. Deferred Debits	22,698		Amounts Received This Year (Net)	178,443	
25. Total Assets & Other Debits (5+12+23+24)	2,587,063		TOTAL Contributions in Aid of Construction	937,656	

**PART D. CONSUMER SALES AND REVENUE DATA**

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,782	243,526	295,418	2,011,144	2,660,601
2. IRRIGATION SALES	2	132	149	7,016	7,661
3. COMM & INDUSTRIAL	250	112,358	118,494	845,941	927,337
4. TOTAL GAS SALES	5,034	356,016	414,062	2,864,101	3,595,598
5. OTHER GAS REVENUE			2,030		22,020
6. TOTAL	5,034	356,016	416,092	2,864,101	3,617,618

**PART E. GAS STATISTICS**

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	625,160	2,878,810	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	269,144	14,709
3. TOTAL PURCHASED	625,160	2,878,810	8. % SYSTEM LOSS	43.05%	0.51%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	356,016	2,864,101	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES



**FINANCIAL AND STATISTICAL REPORT**

Round ALL AMOUNTS to nearest dollar.

**GRAHAM COUNTY UTILITIES, INC.**

 GAS SYSTEM  
 PIMA, AZ 85543

**MONTH ENDING**  
 December 31, 2006

**CERTIFICATION**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

*Russ Barney*
**SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT**
*1/26/07*
**DATE**
*Steve M. Luce*
**SIGNATURE OF MANAGER**
*1-26-07*
**DATE**
**PART A. STATEMENT OF OPERATIONS**

ITEM	YEAR-TO-DATE			DECEMBER
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	2,902,533	3,994,397	4,426,961	475,018
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	1,719,925	2,723,492	3,156,453	318,404
4. Transmission Expense	16	-	12	-
5. Distribution Expense - Operations	226,123	233,360	235,865	18,136
6. Distribution Expense - Maintenance	191,057	183,526	199,477	11,445
7. Consumer Accounts Expense	201,015	225,293	204,867	21,375
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	252,972	261,411	272,836	23,161
11. Total Operation & Maintenance Expense (2 - 10)	2,591,109	3,627,082	4,069,511	392,521
12. Depreciation and Amortization Expense	107,116	111,911	117,072	9,593
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	115,753	113,681	111,379	8,658
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	16,066	15,742	49,215	712
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	2,830,044	3,868,416	4,347,177	411,484
20. Patronage Capital & Operating Margins (1 - 19)	72,489	125,981	79,784	63,533
21. Non Operating Margins - Interest	12,505	6,844	-	884
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	7,453	8,976	7,453	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	92,446	141,801	87,236	64,417

**PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT**

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	59	84			
2. Service Retired		-	6. Miles Distribution	216	220
3. Total Services in Place	4,938	5,022			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	216	220

<b>FINANCIAL AND STATISTICAL REPORT</b>	<b>BORROWER DESIGNATION</b>
	<b>GAS SYSTEM</b>
Round ALL AMOUNTS to nearest dollar.	<b>MONTH ENDING</b>
	December 31, 2006

**PART C. BALANCE SHEET**

<b>ASSETS AND OTHER DEBITS</b>		<b>LIABILITIES AND OTHER CREDITS</b>	
1. Total Utility Plant in Service	3,547,779	26. Memberships	27,800
2. Construction Work in Progress	39,541	27. Patronage Capital	16,512
3. Total Utility Plant (1 + 2)	3,587,319	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	1,852,395	29. Operating Margins - Current Year	125,981
5. Net Utility Plant (3 -4)	1,734,925	30. Non Operating Margins	15,820
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	186,113
8. Invest in Assoc Org - General Funds	144,423	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$_____)	
10. Other Investments	-	34. Long-Term Debt - Other (net)	1,490,511
11. Special Funds	-	(Payments - Unapplied \$_____)	
12. Total Other Property & Investments (6 thru 11)	144,423	35 Total Long-Term Debt(33 + 34)	1,490,511
13. Cash - General Funds	-	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	740,087
15. Special Deposits	-	38. Consumers Deposits	76,410
16. Temporary Investments	-	39. Other Current & Accrued Liabilities	64,730
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	881,227
18. Accounts Receivable - Sales of Gas	336,193	41. Deferred Credits	-
19. Accounts Receivable - Fuel Bank	203,421	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Gas & Other	88,915	43. Total Liabilities & Other Credits (32 +	-
21. Prepayments	22,365	35 + 40 thru 42)	2,557,850
22. Other Current & Accrued Assets	-	<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>	
23. Total Current & Accrued Assets (13 thru 22)	650,893	Balance Beginning of Year	682,102
24. Deferred Debits	27,609	Amounts Received This Year (Net)	77,111
25. Total Assets & Other Debits (5+12+23+24)	2,557,850	TOTAL Contributions in Aid of Construction	759,213

**PART D. CONSUMER SALES AND REVENUE DATA**

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,704	298,075	341,501	1,829,548	2,897,724
2. IRRIGATION SALES	7	155	250	22,378	28,261
3. COMM & INDUSTRIAL	247	128,013	130,846	787,061	1,047,602
4. TOTAL GAS SALES	4,958	426,243	472,598	2,638,987	3,973,587
5. OTHER GAS REVENUE			2,420		20,810
6. TOTAL	4,958	426,243	475,018	2,638,987	3,994,397

**PART E. GAS STATISTICS**

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	604,800	2,754,870	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	178,557	115,883
3. TOTAL PURCHASED	604,800	2,754,870	8. % SYSTEM LOSS	29.52%	4.21%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	426,243	2,638,987	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

# FINANCIAL AND STATISTICAL REPORT

GRAHAM COUNTY UTILITIES, INC.

GAS SYSTEM

PIMA, AZ 85543

MONTH ENDING

December 31, 2005

Round ALL AMOUNTS to nearest dollar.

## CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

*Russ Barney*  
SIGNATURE OF OFFICE MANAGER OR ACCOUNTANT

*1/27/06*  
DATE

*Steve M. Luce*  
SIGNATURE OF MANAGER

*1-27-06*  
DATE

## PART A. STATEMENT OF OPERATIONS

## DECEMBER

ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	
1. Operating Revenue and Patronage Capital	2,430,743	2,902,533	2,514,455	545,346
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	1,289,906	1,719,925	1,284,115	385,969
4. Transmission Expense	-	16	-	-
5. Distribution Expense - Operations	229,438	226,123	242,090	19,909
6. Distribution Expense - Maintenance	184,405	191,057	195,651	9,318
7. Consumer Accounts Expense	200,934	201,015	212,539	20,763
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	256,081	252,972	263,002	20,311
11. Total Operation & Maintenance Expense (2 - 10)	2,160,765	2,591,109	2,197,397	456,270
12. Depreciation and Amortization Expense	104,444	107,116	108,622	9,157
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	103,318	115,753	122,167	10,230
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	9,785	16,066	27,907	1,093
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	2,378,312	2,830,044	2,456,093	476,750
20. Patronage Capital & Operating Margins (1 - 19)	52,430	72,489	58,362	68,596
21. Non Operating Margins - Interest	3,748	12,505	-	2,250
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	6,581	7,453	6,581	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	62,759	92,446	64,943	70,846

## PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	63	59			
2. Service Retired		-	6. Miles Distribution	213	216
3. Total Services in Place	4,879	4,938			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	213	216

<b>FINANCIAL AND STATISTICAL REPORT</b>	<b>BORROWER DESIGNATION</b>
	<b>GAS SYSTEM</b>
Round ALL AMOUNTS to nearest dollar.	<b>MONTH ENDING</b>
	December 31, 2005

**PART C. BALANCE SHEET**

<b>ASSETS AND OTHER DEBITS</b>			<b>LIABILITIES AND OTHER CREDITS</b>		
1. Total Utility Plant in Service	3,380,993		26. Memberships	27,055	
2. Construction Work in Progress	21,622		27. Patronage Capital	(75,934)	
3. Total Utility Plant (1 + 2)	3,402,615		28. Operating Margins - Prior Years		
4. Accum. Provision for Depreciation & Amort.	1,740,483		29. Operating Margins - Current Year	72,489	
5. Net Utility Plant (3 -4)	1,662,131		30. Non Operating Margins	19,957	
6. Nonutility Property _ Net	-		31. Other Margins and Equities	-	
7. Invest in Assoc Org - Patronage Capital	-		32. Total Margins & Equities (26 thru 31)	43,567	
8. Invest in Assoc Org - General Funds	148,012		33. Long-Term Debt RUS (Net)	-	
9. Invest in Assoc Org - Nongeneral Funds	-		(Payments - Unapplied \$_____)		
10. Other Investments	-		34. Long-Term Debt - Other (net)	1,599,829	
11. Special Funds	-		(Payments - Unapplied \$_____)		
12. Total Other Property & Investments (6 thru 11)	148,012		35 Total Long-Term Debt(33 + 34)	1,599,829	
13. Cash - General Funds	-		36. Notes Payable	-	
14. Cash - Construction Funds - Trustee	-		37. Accounts Payable	1,235,132	
15. Special Deposits	-		38. Consumers Deposits	67,825	
16. Temporary Investments	-		39. Other Current & Accrued Liabilities	66,917	
17. Notes Receivable - Net	-		40. Total Current & Accrued Liab (36 thru 39)	1,369,874	
18. Accounts Receivable - Sales of Gas	424,686		41. Deferred Credits	-	
19. Accounts Receivable - Fuel Bank	640,284		42. Miscellaneous Operating Reserves	-	
20. Materials & Supplies - Gas & Other	82,599		43. Total Liabilities & Other Credits (32 +	-	
21. Prepayments	23,037		35 + 40 thru 42)	3,013,270	
22. Other Current & Accrued Assets	-		<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>		
23. Total Current & Accrued Assets (13 thru 22)	1,170,607		Balance Beginning of Year	642,879	
24. Deferred Debits	32,520		Amounts Received This Year (Net)	39,223	
25. Total Assets & Other Debits (5+12+23+24)	3,013,270		TOTAL Contributions in Aid of Construction	682,102	

**PART D. CONSUMER SALES AND REVENUE DATA**

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,607	309,244	386,708	1,921,668	2,165,995
2. IRRIGATION SALES	4	102	193	14,782	12,511
3. COMM & INDUSTRIAL	243	132,893	155,495	757,657	703,147
4. TOTAL GAS SALES	4,854	442,239	542,396	2,694,107	2,881,653
5. OTHER GAS REVENUE			2,950		20,880
6. TOTAL	4,854	442,239	545,346	2,694,107	2,902,533

**PART E. GAS STATISTICS**

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	553,710	2,688,110	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	111,471	(5,997)
3. TOTAL PURCHASED	553,710	2,688,110	8. % SYSTEM LOSS	20.13%	-0.22%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	442,239	2,694,107	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

Form 7

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PAGE 2 OF 2 PAGES

**FINANCIAL AND STATISTICAL REPORT**

Round ALL AMOUNTS to nearest dollar.

**GRAHAM COUNTY UTILITIES, INC.**

GAS SYSTEM

PIMA, AZ 85543

**MONTH ENDING**

December 31, 2004

**CERTIFICATION**

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.


**SIGNATURE OF OFFICE/MANAGER OR ACCOUNTANT**

 1/27/05  
DATE


**SIGNATURE OF MANAGER**

 1-27-05  
DATE

**PART A. STATEMENT OF OPERATIONS**
**DECEMBER**

ITEM	YEAR-TO-DATE			DECEMBER
	LAST YEAR (a)	THIS YEAR (b)	BUDGET (c)	THIS MONTH (d)
1. Operating Revenue and Patronage Capital	2,472,613	2,430,743	2,446,395	364,216
2. Gas Production Expense	-	-	-	-
3. Cost of Purchased Gas	1,389,429	1,289,906	1,320,421	222,463
4. Transmission Expense	-	-	-	-
5. Distribution Expense - Operations	238,452	229,438	250,970	18,931
6. Distribution Expense - Maintenance	243,931	184,405	254,448	11,313
7. Consumer Accounts Expense	201,122	200,934	211,241	15,733
8. Customer Service and Informational Expense	-	-	-	-
9. Sales Expense	-	-	-	-
10. Administrative and General Expense	199,853	256,081	203,879	18,720
11. Total Operation & Maintenance Expense (2 - 10)	2,272,786	2,160,765	2,240,959	287,160
12. Depreciation and Amortization Expense	102,377	104,444	106,823	8,834
13. Tax Expense - Property	-	-	-	-
14. Tax Expense - Other	-	-	-	-
15. Interest on Long-Term Debt	97,279	103,318	113,337	8,919
16. Interest Charged to Construction - Credit	-	-	-	-
17. Interest Expense - Other	13,369	9,785	12,817	650
18. Other Deductions	-	-	-	-
19. Total Cost of Gas Service (11 - 18)	2,485,811	2,378,312	2,473,936	305,563
20. Patronage Capital & Operating Margins (1 - 19)	(13,198)	52,430	(27,541)	58,653
21. Non Operating Margins - Interest	725	3,748	-	478
22. Allowance for Funds Used During Construction	-	-	-	-
23. Non Operating Margins - Other	-	-	-	-
24. Generation & Transmission Capital Credits	-	-	-	-
25. Other Capital Credits and Patronage Dividends	6,709	6,581	6,709	-
26. Extraordinary Items	-	-	-	-
27. Patronage Capital or Margins (20 - 26)	(5,764)	62,759	(20,832)	59,131

**PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT**

ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	61	63			
2. Service Retired		-	6. Miles Distribution	210	213
3. Total Services in Place	4,816	4,879			
4. Idle Services (Exclude Seasonal)	-	-	8. Total Miles (5+6+7)	210	213

<b>FINANCIAL AND STATISTICAL REPORT</b>	<b>BORROWER DESIGNATION</b>
	<b>GAS SYSTEM</b>
Round ALL AMOUNTS to nearest dollar.	<b>MONTH ENDING</b>
	December 31, 2004

**PART C. BALANCE SHEET**

<b>ASSETS AND OTHER DEBITS</b>		<b>LIABILITIES AND OTHER CREDITS</b>	
1. Total Utility Plant in Service	3,261,809	26. Memberships	26,880
2. Construction Work in Progress	31,033	27. Patronage Capital	(138,693)
3. Total Utility Plant (1 + 2)	3,292,842	28. Operating Margins - Prior Years	
4. Accum. Provision for Depreciation & Amort.	1,665,896	29. Operating Margins - Current Year	52,430
5. Net Utility Plant (3 -4)	1,626,946	30. Non Operating Margins	10,329
6. Nonutility Property _ Net	-	31. Other Margins and Equities	-
7. Invest in Assoc Org - Patronage Capital	-	32. Total Margins & Equities (26 thru 31)	(49,054)
8. Invest in Assoc Org - General Funds	151,548	33. Long-Term Debt RUS (Net)	-
9. Invest in Assoc Org - Nongeneral Funds	-	(Payments - Unapplied \$_____)	
10. Other Investments	-	34. Long-Term Debt - Other (net)	1,701,579
11. Special Funds	-	(Payments - Unapplied \$_____)	
12. Total Other Property & Investments (6 thru 11)	151,548	35 Total Long-Term Debt(33 + 34)	1,701,579
13. Cash - General Funds	-	36. Notes Payable	-
14. Cash - Construction Funds - Trustee	-	37. Accounts Payable	615,754
15. Special Deposits	-	38. Consumers Deposits	64,605
16. Temporary Investments	-	39. Other Current & Accrued Liabilities	59,315
17. Notes Receivable - Net	-	40. Total Current & Accrued Liab (36 thru 39)	739,674
18. Accounts Receivable - Sales of Gas	253,379	41. Deferred Credits	-
19. Accounts Receivable - Fuel Bank	243,337	42. Miscellaneous Operating Reserves	-
20. Materials & Supplies - Gas & Other	64,072	43. Total Liabilities & Other Credits (32 +	-
21. Prepayments	17,864	35 + 40 thru 42)	2,392,199
22. Other Current & Accrued Assets	-	<b>ESTIMATED CONTRIBUTIONS IN AID TO CONSTRUCTION</b>	
23. Total Current & Accrued Assets (13 thru 22)	578,652	Balance Beginning of Year	604,696
24. Deferred Debits	35,054	Amounts Received This Year (Net)	38,183
25. Total Assets & Other Debits (5+12+23+24)	2,392,199	TOTAL Contributions in Aid of Construction	642,879

**PART D. CONSUMER SALES AND REVENUE DATA**

CLASS OF SERVICE	THIS MONTH			YEAR TO DATE	
	NO. RECEIVING SERVICE	THERMS SOLD	AMOUNT	THERMS SOLD	AMOUNT
				CUMULATIVE	CUMULATIVE
1. RESIDENTIAL SALES	4,522	361,634	274,821	2,122,686	1,846,080
2. IRRIGATION SALES	6	127	160	43,375	23,832
3. COMM & INDUSTRIAL	240	130,414	87,195	787,781	539,441
4. TOTAL GAS SALES	4,768	492,175	362,176	2,953,842	2,409,353
5. OTHER GAS REVENUE			2,040		21,390
6. TOTAL	4,768	492,175	364,216	2,953,842	2,430,743

**PART E. GAS STATISTICS**

ITEM	THIS MONTH	YEAR TO DATE	ITEM	THIS MONTH	YEAR TO DATE
1. THERMS PURCHASED	571,620	2,873,450	6. OFFICE USE		
2.			7. UNACCOUNTED FOR	79,445	(80,392)
3. TOTAL PURCHASED	571,620	2,873,450	8. % SYSTEM LOSS	13.90%	-2.80%
			9. MAXIMUM DEMAND		
4. TOTAL SOLD	492,175	2,953,842	10. MONTH WHEN MAXIMUM DEMAND OCCURRED		

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

**FAX: (806) 747-3815**

**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2007 and 2006, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2007, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming a opinion on the financial statements of Graham County Utilities, Inc. and Subsidiary. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and it not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 15, 2007

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

**ASSETS**

	September 30,	
	2007	2006
<b>UTILITY PLANT</b>		
Plant in Service	\$ 5,405,462	\$ 5,086,880
Construction Work in Progress	779,909	279,683
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 7,211,023</u>	<u>\$ 6,392,215</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>3,602,152</u>	<u>3,378,966</u>
	<u>\$ 3,608,871</u>	<u>\$ 3,013,249</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	\$ 253,219	\$ 262,517
<b>CURRENT ASSETS</b>		
Cash - General	\$ 51,571	\$ 19,557
Accounts Receivable (Less allowance for uncollectibles of \$59,203 in 2007 and \$68,188 in 2006)	102,206	94,327
Accounts Receivable - GCEC	26,193	
Materials and Supplies	139,621	133,587
Other Current and Accrued Assets	51,933	45,556
Total Current Assets	<u>\$ 371,524</u>	<u>\$ 293,027</u>
<b>DEFERRED CHARGES</b>	<u>\$ 44,219</u>	<u>\$ 52,559</u>
	<u>\$ 4,277,833</u>	<u>\$ 3,621,352</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 30,680	\$ 29,945
Accumulated Margins	488,992	311,801
	<u>\$ 519,672</u>	<u>\$ 341,746</u>
<b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,693,208	\$ 1,965,600
AEPCO Note Payable Less Current Maturities	45,834	67,834
Graham County Electric Cooperative Note Payable Less Current Maturities	56,335	95,096
USDA Rural Development Note Payable Less Current Maturities	1,372,878	492,941
	<u>\$ 3,168,255</u>	<u>\$ 2,621,471</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 217,761	\$ 201,904
Accounts Payable - Other	107,392	147,077
Accounts Payable - Graham County Electric Coop		75,761
Overbilled Consumers Fuel Cost	113,137	76,809
Customers' Deposits and Prepayments	79,065	82,730
Accrued Payroll		927
Accrued Taxes	57,135	55,329
Accrued Interest	15,416	17,598
Total Current Liabilities	<u>\$ 589,906</u>	<u>\$ 658,135</u>
	<u>\$ 4,277,833</u>	<u>\$ 3,621,352</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
OPERATING REVENUES	\$ 4,241,224	\$ 4,254,119
OPERATING EXPENSES		
Purchased Gas	\$ 2,293,478	\$ 2,425,984
Power for Pumping	40,810	27,050
Operations	339,378	290,160
Maintenance	352,392	322,259
Consumer Accounts	290,383	264,277
Administrative and General	353,604	340,817
Depreciation and Amortization	223,187	216,916
Other Interest	27,458	29,838
Total Operating Expenses	\$ 3,920,690	\$ 3,917,301
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 320,534	\$ 336,818
Interest on Long-Term Debt	166,362	179,003
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 154,172	\$ 157,815
Capital Credits	15,724	16,936
NET OPERATING MARGINS	\$ 169,896	\$ 174,751
NONOPERATING MARGINS		
Interest	7,295	12,237
NET MARGINS	\$ 177,191	\$ 186,988
ACCUMULATED MARGINS - BEGINNING OF YEAR	311,801	124,813
ACCUMULATED MARGINS - END OF YEAR	\$ 488,992	\$ 311,801

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 177,191	\$ 186,988
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	223,187	216,916
Capital Credits - Noncash	(4,717)	(5,081)
Overbilled Fuel Cost	36,328	308,844
Deferred Charges	8,340	8,341
Accounts Receivable	(7,879)	35,383
Inventories and Other Current Assets	(12,411)	(25,261)
Payables and Accrued Expenses	(44,654)	47,423
Net Payments to (from) - Graham County Electric Cooperative	(101,954)	(238,672)
Net Cash Provided by Operating Activities	\$ 273,431	\$ 534,881
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (818,808)	\$ (356,165)
Investments in Associated Organizations	14,015	13,179
Net Cash Used in Investing Activities	\$ (804,793)	\$ (342,986)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from USDA	\$ 893,722	\$
Payments on Note Payable to AEPCO	(22,000)	(22,000)
Payments on Long-Term Debt to CFC	(264,393)	(128,230)
Payments on Long-Term Debt to GCEC	(36,004)	(33,444)
Payments on Long-Term Debt to USDA	(8,684)	(8,288)
Memberships	735	500
Net Cash Provided by (Used in) Financing Activities	\$ 563,376	\$ (191,462)
INCREASE IN CASH	\$ 32,014	\$ 433
CASH - BEGINNING OF YEAR	19,557	19,124
CASH - END OF YEAR	\$ 51,571	\$ 19,557
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 166,362	\$ 179,003
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2007 and 2006, was estimated to be \$68,146 and \$72,243 in the gas department and \$37,874 and \$37,533 in the water department.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2007 and 2006, the cooperative had overbilled of \$113,137 and \$76,809, respectively.

**Group Concentration of Credit Risk**

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$79,065 and \$82,730 at September 30, 2007 and 2006, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Federal Income Tax Status**

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

**Allowance for Uncollectible Accounts**

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

**3. Utility Plant and Depreciation**

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2007			September 30,
	Gas	Water	Total	2006
	Department	Department		Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		554,337	554,337	463,178
Transmission		983,468	983,468	983,468
Distribution	3,118,398	308,808	3,427,206	3,238,369
General	115,471	220,827	336,298	304,212
Land and Land Rights	1,416	22,507	23,923	17,423
Total Plant in Service	\$ 3,277,807	\$ 2,127,655	\$ 5,405,462	\$ 5,086,880
Construction Work in Progress	17,984	761,925	779,909	279,683
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,711,275	\$ 3,499,748	\$ 7,211,023	\$ 6,392,215

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2007 and 2006, totaled \$223,187 and \$216,916, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2007, are summarized as follows:

	Gas Department	Water Department
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 282,529	\$ 414,914
Current Year	16,619	24,407
	\$ 299,148	\$ 439,321
Unamortized Adjustment	\$ 116,336	\$ 170,847

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2007	2006
CFC		
Capital Term Certificates	\$ 160,547	\$ 168,238
Patronage Capital	85,545	87,152
Memberships	1,000	1,000
	\$ 247,092	\$ 256,390
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,127	\$ 6,127
	\$ 253,219	\$ 262,517



GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2007	2006
Gas Department		
Rate Filing Costs	\$ 1,043	\$ 2,087
Unamortized Debt Expense	22,883	26,750
	<u>\$ 23,926</u>	<u>\$ 28,837</u>
Water Department		
Unamortized Debt Expense	\$ 20,293	\$ 23,722
	<u>\$ 44,219</u>	<u>\$ 52,559</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2007 and 2006, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2007	2006
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,015	20,280
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 30,680</u>	<u>\$ 29,945</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007 Nine Months	75,846	45,938	121,784
	<u>\$ 234,158</u>	<u>\$ 336,869</u>	<u>\$ 571,027</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ 234,158</u>	<u>\$ 254,834</u>	<u>\$ 488,992</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2007 and 2006, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2007	2006
Fixed - 7.10%	\$ 839,549	\$ 929,167
Variable (7.05% in 2007, 7.30% in 2006)	288,114	316,644
Fixed - 7.45%	335,228	473,294
Fixed - 6.25%	373,517	381,695
	<u>\$ 1,836,408</u>	<u>\$ 2,100,800</u>
Less: Current Maturities	<u>143,200</u>	<u>135,200</u>
	<u>\$ 1,693,208</u>	<u>\$ 1,965,600</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2007, annual maturities of long-term debt due CFC for the next five years is as follows:

2008	\$ 143,200
2009	153,600
2010	164,800
2011	176,800
2012	189,600

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were met during the year ended September 30, 2007 and 2006.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2007	2006
5.000% Note Maturing March, 2032	\$ 147,205	\$ 150,203
4.500% Note Maturing August, 2035	257,006	261,530
4.500% Note Maturing July, 2040	88,746	89,908
4.125% Note Maturing March, 2047	893,721	
	<u>\$ 1,386,678</u>	<u>\$ 501,641</u>
Less: Current Maturities	<u>13,800</u>	<u>8,700</u>
	<u>\$ 1,372,878</u>	<u>\$ 492,941</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due monthly in amounts of \$6,496. As of September 30, 2007, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2008	\$ 13,800
2009	19,100
2010	20,000
2011	21,000
2012	21,900

Unadvanced loan funds of \$206,279 are available to the cooperative on loan commitments from USDA Rural Development.

**10. Graham County Electric Note Payable**

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2007, is \$95,096. Annual maturities due to Graham County Electric Cooperative for the next three years are as follows:

2008	\$ 38,761
2009	41,728
2010	14,607

**11. AEPCO Note Payable**

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2007, is \$67,834. Annual maturities due to AEPCO for the next four years are as follows:

2008	\$ 22,000
2009	22,000
2010	22,000
2011	1,834

**12. Related Parties**

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	<u>2007</u>	<u>2006</u>
Graham County Utilities, Inc.		
Accounts Payable	\$	\$ (75,761)
Accounts Receivable	26,193	
Note Payable	<u>(95,096)</u>	<u>(131,100)</u>
Net Due to Affiliated Cooperative	\$ <u><u>(68,903)</u></u>	\$ <u><u>(206,861)</u></u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$	\$ 75,761
Accounts Payable	(26,193)	
Note Receivable	<u>95,096</u>	<u>131,100</u>
Net Due from Affiliated Cooperative	\$ <u><u>68,903</u></u>	\$ <u><u>206,861</u></u>

**13. Litigation**

The cooperative is not involved in any litigation that would materially affect the financial statements.

**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**PHONE: (806) 747-3806**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 15, 2007

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 1

BALANCE SHEET  
SEPTEMBER 30, 2007 AND 2006

ASSETS

	September 30,	
	2007	2006
UTILITY PLANT		
Plant in Service	\$ 3,277,807	\$ 3,090,689
Construction Work in Progress	17,984	21,026
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,711,275</u>	<u>\$ 3,527,199</u>
Less: Accumulated Provision for Depreciation and Amortization	1,940,945	1,823,740
	<u>\$ 1,770,330</u>	<u>\$ 1,703,459</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 139,355	\$ 143,693
CURRENT ASSETS		
Cash	\$ 10,330	\$
Accounts Receivable (Less allowance for uncollectibles of \$47,607 in 2007 and \$54,700 in 2006)	80,176	78,982
Materials and Supplies	84,695	65,567
Other Current and Accrued Assets	35,952	31,169
Total Current Assets	<u>\$ 211,153</u>	<u>\$ 175,718</u>
Deferred Charges	\$ 23,926	\$ 28,837
	<u>\$ 2,144,764</u>	<u>\$ 2,051,707</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,180	\$ 27,445
Accumulated Deficits	234,158	100,534
	<u>\$ 262,338</u>	<u>\$ 127,979</u>
LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 56,335	\$ 95,096
CFC Mortgage Notes Less Current Maturities	1,221,807	1,309,580
	<u>\$ 1,278,142</u>	<u>\$ 1,404,676</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 123,361	\$ 113,904
Accounts Payable - Other	70,330	97,297
Accounts Payable - Graham County Electric Cooperative	16,156	77,955
Accounts Payable - Water Department	160,862	28,050
Overbilled Consumers Fuel Cost	113,137	76,809
Accrued Taxes	37,568	36,501
Customers' Deposits and Prepayments	69,875	72,830
Accrued Payroll		771
Accrued Interest	12,995	14,935
Total Current Liabilities	<u>\$ 604,284</u>	<u>\$ 519,052</u>
	<u>\$ 2,144,764</u>	<u>\$ 2,051,707</u>



**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

Schedule 2

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	September 30,		Increase (Decrease)
	2007	2006	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,717,738	\$ 2,901,626	\$ (183,888)
Irrigation	8,601	27,473	(18,872)
Commercial and Industrial	944,533	1,055,917	(111,384)
Fuel Cost Under (Over) Billed	(37,223)	(318,195)	280,972
Other Operating Revenues	22,280	21,180	1,100
Total Operating Revenues	<u>\$ 3,655,929</u>	<u>\$ 3,688,001</u>	<u>\$ (32,072)</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 2,293,478	\$ 2,425,984	\$ (132,506)
Operations	266,967	227,275	39,692
Maintenance	237,776	195,706	42,070
Customer Accounts	239,796	219,205	20,591
Administrative and General	264,696	261,096	3,600
Depreciation and Amortization	117,205	110,613	6,592
Other Interest	16,670	32,387	(15,717)
Total Operating Expenses	<u>\$ 3,436,588</u>	<u>\$ 3,472,266</u>	<u>\$ (35,678)</u>
<b>OPERATING MARGINS - Before</b>			
Fixed Charges	\$ 219,341	\$ 215,735	\$ 3,606
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>98,668</u>	<u>102,568</u>	<u>(3,900)</u>
<b>OPERATING MARGINS - After</b>			
Fixed Charges	\$ 120,673	\$ 113,167	\$ 7,506
Capital Credits	<u>9,372</u>	<u>8,976</u>	<u>396</u>
<b>NET OPERATING MARGINS</b>	\$ 130,045	\$ 122,143	\$ 7,902
<b>NONOPERATING MARGINS</b>			
Interest	<u>3,579</u>	<u>10,654</u>	<u>(7,075)</u>
<b>NET MARGINS</b>	\$ 133,624	\$ 132,797	<u>\$ 827</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>100,534</u>	<u>(32,263)</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	<u>\$ 234,158</u>	<u>\$ 100,534</u>	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 133,624	\$ 132,797
Adjustments to Reconcile Net Margins to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	117,205	110,613
Capital Credits - Noncash	(2,812)	(2,693)
Deferred Charges	4,911	4,911
Overbilled Fuel Cost - Net	36,328	308,844
Accounts Receivable	(1,194)	28,460
Inventories and Other Current Assets	(23,911)	5,081
Payables and Accrued Expenses	(31,566)	19,377
Net Payments to - Water Department	132,812	(118,440)
Net Payments to - Graham County Electric Cooperative	(61,799)	(236,443)
Net Cash Provided by Operating Activities	\$ 303,598	\$ 252,507
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Gas Utility Plant	\$ (184,075)	\$ (151,914)
Investments in Associated Organizations	7,150	6,282
Net Cash Used in Investing Activities	\$ (176,925)	\$ (145,632)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt - CFC	\$ (81,074)	\$ (73,931)
Payments on Long-Term Debt - Graham County Electric Cooperative	(36,004)	(33,444)
Memberships	735	500
Net Cash Used in Financing Activities	\$ (116,343)	\$ (106,875)
INCREASE IN CASH	\$ 10,330	\$ 0
CASH - BEGINNING OF YEAR	0	0
CASH - END OF YEAR	\$ 10,330	\$ 0
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 98,668	\$ 102,568
Federal Income Tax	\$ 0	\$ 0

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 4

BALANCE SHEET  
SEPTEMBER 30, 2007 AND 2006

ASSETS

	September 30,	
	2007	2006
UTILITY PLANT AT COST		
Water Plant in Service	\$ 2,127,655	\$ 1,996,191
Construction Work in Progress	761,925	258,657
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 3,499,748</u>	<u>\$ 2,865,016</u>
Less: Accumulated Provision for Depreciation and Amortization	1,661,207	1,555,226
	<u>\$ 1,838,541</u>	<u>\$ 1,309,790</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 113,864	\$ 118,824
CURRENT ASSETS		
Cash - General	\$ 41,241	\$ 19,557
Accounts Receivable - Customers (Less allowance for uncollectibles of \$11,596 in 2007 and \$13,488 in 2006)	22,030	15,345
Accounts Receivable - Graham County Electric Cooperative	42,349	2,194
Accounts Receivable - Gas Department	160,862	28,050
Materials and Supplies	54,926	68,020
Other Current and Accrued Assets	15,981	14,387
Total Current Assets	<u>\$ 337,389</u>	<u>\$ 147,553</u>
DEFERRED CHARGES	\$ 20,293	\$ 23,722
	<u>\$ 2,310,087</u>	<u>\$ 1,599,889</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	254,834	211,267
	<u>\$ 257,334</u>	<u>\$ 213,767</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 471,401	\$ 656,020
AEP CO Notes Payable Less Current Maturities	45,834	67,834
USDA Rural Development Notes Less Current Maturities	1,372,878	492,941
	<u>\$ 1,890,113</u>	<u>\$ 1,216,795</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 94,400	\$ 88,000
Accounts Payable - Other	37,062	49,780
Accrued Taxes	19,567	18,828
Customers' Deposits and Prepayments	9,190	9,900
Accrued Payroll		156
Accrued Interest	2,421	2,663
Total Current Liabilities	<u>\$ 162,640</u>	<u>\$ 169,327</u>
	<u>\$ 2,310,087</u>	<u>\$ 1,599,889</u>

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 5

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,		Increase (Decrease)
	2007	2006	
OPERATING REVENUES			
Residential	\$ 495,134	\$ 487,140	\$ 7,994
Commercial and Industrial	50,055	46,612	3,443
Sales for Resale	37,395	30,236	7,159
Other Operating Revenues	2,710	2,130	580
Total Operating Revenues	<u>\$ 585,294</u>	<u>\$ 566,118</u>	<u>\$ 19,176</u>
OPERATING EXPENSES			
Purchased Power - Pumping	\$ 40,810	\$ 27,050	\$ 13,760
Operations	72,411	62,885	9,526
Maintenance	114,616	126,553	(11,937)
Customer Accounts	50,587	45,072	5,515
Administrative and General	88,907	79,721	9,186
Depreciation and Amortization	105,982	106,303	(321)
Other Interest	11,679	4,062	7,617
Total Operating Expenses	<u>\$ 484,992</u>	<u>\$ 451,646</u>	<u>\$ 33,346</u>
OPERATING MARGINS - Before Fixed Charges	\$ 100,302	\$ 114,472	\$ (14,170)
FIXED CHARGES			
Interest on Long-Term Debt	<u>67,694</u>	<u>76,445</u>	<u>(8,751)</u>
OPERATING MARGINS - After Fixed Charges	\$ 32,608	\$ 38,027	\$ (5,419)
Capital Credits	<u>6,352</u>	<u>7,960</u>	<u>(1,608)</u>
NET OPERATING MARGINS	\$ 38,960	\$ 45,987	\$ (7,027)
NONOPERATING MARGINS			
Interest	<u>4,607</u>	<u>8,204</u>	<u>(3,597)</u>
NET MARGINS	\$ 43,567	\$ 54,191	\$ <u>(10,624)</u>
ACCUMULATED MARGINS - BEGINNING OF YEAR	<u>211,267</u>	<u>157,076</u>	
ACCUMULATED MARGINS - END OF YEAR	<u>\$ 254,834</u>	<u>\$ 211,267</u>	

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 43,567	\$ 54,191
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	105,982	106,303
Capital Credits - Noncash	(1,906)	(2,388)
Deferred Charges	3,429	3,430
Accounts Receivable	(6,685)	6,923
Inventories and Other Current Assets	11,500	(30,342)
Payables and Accrued Expenses	(13,089)	28,046
Net Advances from (to) - Gas Department	(132,812)	118,440
Net Payments from (to) - Graham County Electric Cooperative	(40,155)	(2,229)
Net Cash Provided by (Used in) Operating Activities	\$ (30,169)	\$ 282,374
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (634,732)	\$ (204,251)
Investments in Associated Organizations	6,866	6,897
Net Cash Used in Investing Activities	\$ (627,866)	\$ (197,354)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from USDA	\$ 893,722	\$
Payments on Note Payable to AEPCO	(22,000)	(22,000)
Payments on Long-Term Debt to CFC	(183,319)	(54,299)
Payments on Long-Term Debt to USDA	(8,684)	(8,288)
Net Cash Provided by (Used in) Financing Activities	\$ 679,719	\$ (84,587)
INCREASE IN CASH	\$ 21,684	\$ 433
CASH - BEGINNING OF YEAR	19,557	19,124
CASH - END OF YEAR	\$ 41,241	\$ 19,557
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 67,694	\$ 76,445
Federal Income Tax	\$ 0	\$ 0

## COMPLIANCE AND INTERNAL CONTROL SECTION

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING  
AUDITS OF CFC BORROWERS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2007, and have issued our report thereon dated November 15, 2007.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 15, 2007

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2007, and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



Board of Directors  
Graham County Utilities, Inc.

This communication is intended for the information of the Board of Directors, management, USDA Rural Development, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 15, 2007

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of A-133 findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control over compliance.

Board of Directors  
Graham County Utilities, Inc.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 15, 2007

**FEDERAL FINANCIAL ASSISTANCE SECTION**

**GRAHAM COUNTY UTILITIES, INC.**  
**SCHEDULE OF A-133 FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**I. Summary of Auditors' Results**

1. Type of auditor's report issued on the financial statements: **Unqualified**
2. Significant Deficiencies: **None.**
3. There were no significant deficiencies noted; therefore, there were no material weaknesses.
4. Noncompliance which is material to the financial statements: **None**
5. Type of auditor's report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec. \_\_510(a): **No**
7. Major programs include:
  - 10.760 – Water and Waste Disposal Systems for Rural Communities
  - Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
8. Low risk auditee: **No**

**II. Findings Related to the Financial Statements**

The audit disclosed no findings required to be reported.

**III. Findings and Questioned Costs Related to the Federal Awards**

The audit disclosed no findings required to be reported.

GRAHAM COUNTY UTILITIES, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures and Indirect Costs</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 500,000.45

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**





**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2008 and 2007, and the related statements of income and accumulated margins, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2008, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Graham County Utilities, Inc. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and it is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 3, 2008

-2-  
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

**ASSETS**

	September 30,	
	2008	2007
<b>UTILITY PLANT</b>		
Plant in Service	\$ 5,814,817	\$ 5,405,462
Construction Work in Progress	1,287,278	779,909
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 8,127,747</u>	<u>\$ 7,211,023</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>3,848,763</u>	<u>3,602,152</u>
	<u>\$ 4,278,984</u>	<u>\$ 3,608,871</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	<u>\$ 243,099</u>	<u>\$ 253,219</u>
<b>CURRENT ASSETS</b>		
Cash - General	\$ 44,517	\$ 51,571
Accounts Receivable (Less allowance for uncollectibles of \$80,217 in 2008 and \$59,203 in 2007)	71,765	102,206
Accounts Receivable - GCEC		26,193
Underbilled Consumers Fuel Cost	32,417	
Materials and Supplies	142,225	139,621
Other Current and Accrued Assets	32,475	51,933
Total Current Assets	<u>\$ 323,399</u>	<u>\$ 371,524</u>
<b>DEFERRED CHARGES</b>	<u>\$ 35,878</u>	<u>\$ 44,219</u>
	<u>\$ 4,881,360</u>	<u>\$ 4,277,833</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 30,629	\$ 30,680
Accumulated Margins	355,541	488,992
	<u>\$ 386,170</u>	<u>\$ 519,672</u>
<b>LONG - TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,536,299	\$ 1,693,208
AEPCO Note Payable Less Current Maturities	25,667	45,834
Graham County Electric Cooperative Note Payable Less Current Maturities	14,607	56,335
USDA Rural Development Note Payable Less Current Maturities	<u>1,557,427</u>	<u>1,372,878</u>
	<u>\$ 3,134,000</u>	<u>\$ 3,168,255</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 238,628	\$ 217,761
Accounts Payable - Other	158,717	107,392
Accounts Payable - Graham County Electric Coop	817,693	
Overbilled Consumers Fuel Cost		113,137
Customers' Deposits and Prepayments	75,810	79,065
Accrued Taxes	55,232	57,135
Accrued Interest	15,110	15,416
Total Current Liabilities	<u>\$ 1,361,190</u>	<u>\$ 589,906</u>
	<u>\$ 4,881,360</u>	<u>\$ 4,277,833</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
OPERATING REVENUES	\$ 4,373,004	\$ 4,241,224
OPERATING EXPENSES		
Purchased Gas	\$ 2,398,790	\$ 2,293,478
Power for Pumping	32,595	40,810
Operations	345,717	339,378
Maintenance	441,186	352,392
Consumer Accounts	334,466	290,383
Administrative and General	495,840	353,604
Depreciation and Amortization	246,611	223,187
Other Interest	35,768	27,458
Total Operating Expenses	\$ 4,330,973	\$ 3,920,690
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 42,031	\$ 320,534
Interest on Long-Term Debt	195,057	166,362
OPERATING MARGINS (LOSS) - AFTER FIXED CHARGES	\$ (153,026)	\$ 154,172
Capital Credits	14,142	15,724
NET OPERATING MARGINS (LOSS)	\$ (138,884)	\$ 169,896
NONOPERATING MARGINS		
Interest	5,433	7,295
NET MARGINS (LOSS)	\$ (133,451)	\$ 177,191
ACCUMULATED MARGINS - BEGINNING OF YEAR	488,992	311,801
ACCUMULATED MARGINS - END OF YEAR	\$ 355,541	\$ 488,992

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins (Loss)	\$ (133,451)	\$ 177,191
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	246,611	223,187
Capital Credits - Noncash	(4,242)	(4,717)
Over/(Under)billed Fuel Cost	(145,554)	36,328
Deferred Charges	8,341	8,340
Accounts Receivable	30,441	(7,879)
Inventories and Other Current Assets	16,853	(12,411)
Payables and Accrued Expenses	45,862	(44,654)
Net Payments to (from) - Graham County Electric Cooperative	843,886	(101,954)
Net Cash Provided by Operating Activities	\$ 908,747	\$ 273,431
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (916,725)	\$ (818,808)
Investments in Associated Organizations	14,362	14,015
Net Cash Used in Investing Activities	\$ (902,363)	\$ (804,793)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on Long-Term Debt from USDA	\$ 206,278	\$ 893,722
Payments on Note Payable to AEPCO	(20,166)	(22,000)
Payments on Long-Term Debt to CFC	(146,108)	(264,393)
Payments on Long-Term Debt to GCEC	(38,761)	(36,004)
Payments on Long-Term Debt to USDA	(14,630)	(8,684)
Memberships	(51)	735
Net Cash Provided by (Used in) Financing Activities	\$ (13,438)	\$ 563,376
<b>INCREASE (DECREASE) IN CASH</b>	\$ (7,054)	\$ 32,014
<b>CASH - BEGINNING OF YEAR</b>	51,571	19,557
<b>CASH - END OF YEAR</b>	\$ 44,517	\$ 51,571
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 200,791	\$ 166,362
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2008 and 2007, was estimated to be \$58,032 and \$68,146 in the gas department and \$36,270 and \$37,874 in the water department.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2008 and 2007, the Cooperative was underbilled \$32,417 and overbilled \$113,137, respectively.

**Group Concentration of Credit Risk**

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$75,810 and \$79,065 at September 30, 2008 and 2007, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Federal Income Tax Status**

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

**Allowance for Uncollectible Accounts**

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

**3. Utility Plant and Depreciation**

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.



**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

Major classes of utility plant are summarized as follows:

	September 30, 2008			September 30,
	Gas Department	Water Department	Total	2007 Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		555,938	555,938	554,337
Transmission		983,468	983,468	983,468
Distribution	3,359,500	505,829	3,865,329	3,427,206
General	194,478	111,451	305,929	336,298
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 3,597,916	\$ 2,216,901	\$ 5,814,817	\$ 5,405,462
Construction Work in Progress	101,760	1,185,518	1,287,278	779,909
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 4,115,160	\$ 4,012,587	\$ 8,127,747	\$ 7,211,023

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2008 and 2007, totaled \$246,611 and \$223,187, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2008, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 299,149	\$ 439,320
Current Year	16,619	24,407
	<u>\$ 315,768</u>	<u>\$ 463,727</u>
Unamortized Adjustment	<u>\$ 99,716</u>	<u>\$ 146,441</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>
CFC		
Capital Term Certificates	\$ 152,510	\$ 160,547
Patronage Capital	83,463	85,545
Memberships	1,000	1,000
	<u>\$ 236,973</u>	<u>\$ 247,092</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,126	\$ 6,127
	<u>\$ 243,099</u>	<u>\$ 253,219</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2008	2007
Gas Department		
Rate Filing Costs	\$	\$ 1,043
Unamortized Debt Expense	19,015	22,883
	<u>\$ 19,015</u>	<u>\$ 23,926</u>
Water Department		
Unamortized Debt Expense	\$ 16,863	\$ 20,293
	<u>\$ 35,878</u>	<u>\$ 44,219</u>

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2008 and 2007, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2008	2007
Class A Memberships		
Graham County Electric Cooperative, Inc.,		
entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric		
Cooperative, Inc., \$5 membership fee, entitled		
to one vote per membership	20,964	21,015
Class C Memberships		
All others who receive service, \$5 membership		
fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 30,629</u>	<u>\$ 30,680</u>

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**7. Accumulated Margins (Deficits)**

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008 Nine Months	(101,532)	(15,774)	(117,306)
	<u>\$ 125,783</u>	<u>\$ 311,793</u>	<u>\$ 437,576</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ 125,783</u>	<u>\$ 229,758</u>	<u>\$ 355,541</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the year ended September 30, 2008 and 2007, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2008	2007
Fixed - 7.10%	\$ 743,396	\$ 839,549
Variable (4.90% in 2008, 7.05% in 2007)	256,966	288,114
Fixed - 7.45%	323,387	335,228
Fixed - 6.25%	366,550	373,517
	<u>\$ 1,690,299</u>	<u>\$ 1,836,408</u>
Less: Current Maturities	<u>154,000</u>	<u>143,200</u>
	<u>\$ 1,536,299</u>	<u>\$ 1,693,208</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2008, annual maturities of long-term debt due CFC for the next five years is as follows:

2009	154,000
2010	164,400
2011	175,600
2012	187,500
2013	200,300

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements were met during the year ended September 30, 2008 and 2007.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2008	2007
5.000% Note Maturing March, 2032	\$ 144,052	\$ 147,205
4.500% Note Maturing August, 2035	252,271	257,006
4.500% Note Maturing July, 2040	87,529	88,746
4.125% Note Maturing March, 2047	1,094,475	893,721
	<u>\$ 1,578,327</u>	<u>\$ 1,386,678</u>
Less: Current Maturities	<u>20,900</u>	<u>13,800</u>
	<u>\$ 1,557,427</u>	<u>\$ 1,372,878</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due monthly in amounts of \$7,393. As of September 30, 2008, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2009	20,900
2010	21,900
2011	22,900
2012	23,900
2013	24,900

**10. Graham County Electric Note Payable**

During 1998, the Cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2008, is \$56,335. Annual maturities due to Graham County Electric Cooperative for the next two years are as follows:

2009	41,728
2010	14,607

**11. AEPCO Note Payable**

During 1999, the Cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2008, is \$47,667. Annual maturities due to AEPCO for the next three years are as follows:

2009	22,000
2010	22,000
2011	3,667

**12. Related Parties**

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Intercompany balances between the two Cooperatives are summarized as follows:

	September 30,	
	2008	2007
Graham County Utilities, Inc.		
Accounts Payable	\$ (820,100)	\$
Accounts Receivable		26,193
Note Payable	<u>(56,335)</u>	<u>(95,096)</u>
Net Due to Affiliated Cooperative	<u>\$ (876,435)</u>	<u>\$ (68,903)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 820,100	\$
Accounts Payable		(26,193)
Note Receivable	<u>56,335</u>	<u>95,096</u>
Net Due from Affiliated Cooperative	<u>\$ 876,435</u>	<u>\$ 68,903</u>

13. Litigation

The Cooperative is not involved in any litigation that would materially affect the financial statements.

**ACCOMPANYING INFORMATION**



**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 3, 2008

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 1

BALANCE SHEET  
SEPTEMBER 30, 2008 AND 2007

ASSETS

	September 30,	
	2008	2007
UTILITY PLANT		
Plant in Service	\$ 3,597,916	\$ 3,277,807
Construction Work in Progress	101,760	17,984
Plant Acquisition Adjustment	415,484	415,484
	\$ 4,115,160	\$ 3,711,275
Less: Accumulated Provision for Depreciation and Amortization	2,070,451	1,940,945
	\$ 2,044,709	\$ 1,770,330
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 135,593	\$ 139,355
CURRENT ASSETS		
Cash	\$	\$ 10,330
Accounts Receivable (Less allowance for uncollectibles of \$65,606 in 2008 and \$47,607 in 2007)	57,220	80,176
Underbilled Consumers Fuel Cost	32,417	
Materials and Supplies	91,067	84,695
Other Current and Accrued Assets	20,562	35,952
Total Current Assets	\$ 201,266	\$ 211,153
Deferred Charges	\$ 19,015	\$ 23,926
	\$ 2,400,583	\$ 2,144,764

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 28,129	\$ 28,180
Accumulated Deficits	125,783	234,158
	\$ 153,912	\$ 262,338
LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 14,607	\$ 56,335
CFC Mortgage Notes Less Current Maturities	1,113,729	1,221,807
	\$ 1,128,336	\$ 1,278,142
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 148,128	\$ 123,361
Accounts Payable - Other	103,777	70,330
Accounts Payable - Graham County Electric Cooperative	750,751	16,156
Accounts Payable - Water Department		160,862
Overbilled Consumers Fuel Cost		113,137
Accrued Taxes	35,549	37,568
Customers' Deposits and Prepayments	67,270	69,875
Accrued Interest	12,860	12,995
Total Current Liabilities	\$ 1,118,335	\$ 604,284
	\$ 2,400,583	\$ 2,144,764

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

Schedule 2

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	September 30,		Increase (Decrease)
	2008	2007	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,658,038	\$ 2,717,738	\$ (59,700)
Irrigation	5,263	8,601	(3,338)
Commercial and Industrial	936,481	944,533	(8,052)
Fuel Cost Under (Over) Billed	144,749	(37,223)	181,972
Other Operating Revenues	21,520	22,280	(760)
Total Operating Revenues	<u>\$ 3,766,051</u>	<u>\$ 3,655,929</u>	<u>\$ 110,122</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 2,398,790	\$ 2,293,478	\$ 105,312
Operations	285,961	266,967	18,994
Maintenance	285,370	237,776	47,594
Customer Accounts	276,124	239,796	36,328
Administrative and General	394,362	264,696	129,666
Depreciation and Amortization	129,506	117,205	12,301
Other Interest	29,948	16,670	13,278
Total Operating Expenses	<u>\$ 3,800,061</u>	<u>\$ 3,436,588</u>	<u>\$ 363,473</u>
<b>OPERATING MARGINS (LOSS) - Before Fixed Charges</b>	<u>\$ (34,010)</u>	<u>\$ 219,341</u>	<u>\$ (253,351)</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>86,266</u>	<u>98,668</u>	<u>(12,402)</u>
<b>OPERATING MARGINS (LOSS) - After Fixed Charges</b>	<u>\$ (120,276)</u>	<u>\$ 120,673</u>	<u>\$ (240,949)</u>
Capital Credits	<u>10,168</u>	<u>9,372</u>	<u>796</u>
<b>NET OPERATING MARGINS (LOSS)</b>	<u>\$ (110,108)</u>	<u>\$ 130,045</u>	<u>\$ (240,153)</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>1,733</u>	<u>3,579</u>	<u>(1,846)</u>
<b>NET MARGINS (LOSS)</b>	<u>\$ (108,375)</u>	<u>\$ 133,624</u>	<u>\$ (241,999)</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>234,158</u>	<u>100,534</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	<u>\$ 125,783</u>	<u>\$ 234,158</u>	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins (Loss)	\$ (108,375)	\$ 133,624
Adjustments to Reconcile Net Margins to Net Cash		
Provided by (Used in) Operating Activities		
Depreciation and Amortization	129,506	117,205
Capital Credits - Noncash	(3,050)	(2,812)
Deferred Charges	4,911	4,911
Over/(Under)billed Fuel Cost - Net	(145,554)	36,328
Accounts Receivable	22,956	(1,194)
Inventories and Other Current Assets	9,018	(23,911)
Payables and Accrued Expenses	28,688	(31,566)
Net Payments to - Water Department	(160,862)	132,812
Net Payments to - Graham County Eelectric Cooperative	734,595	(61,799)
Net Cash Provided by Operating Activities	\$ 511,833	\$ 303,598
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (403,886)	\$ (184,075)
Investments in Associated Organizations	6,812	7,150
Net Cash Used in Investing Activities	\$ (397,074)	\$ (176,925)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt - CFC	\$ (86,277)	\$ (81,074)
Payments on Long-Term Debt - Graham County Electric Cooperative	(38,761)	(36,004)
Memberships	(51)	735
Net Cash Used in Financing Activities	\$ (125,089)	\$ (116,343)
<b>INCREASE (DECREASE) IN CASH</b>	\$ (10,330)	\$ 10,330
<b>CASH - BEGINNING OF YEAR</b>	10,330	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 10,330
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 92,006	\$ 98,668
Federal Income Tax	\$ 0	\$ 0

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 4

BALANCE SHEET  
SEPTEMBER 30, 2008 AND 2007

ASSETS

	September 30,	
	2008	2007
UTILITY PLANT AT COST		
Water Plant in Service	\$ 2,216,901	\$ 2,127,655
Construction Work in Progress	1,185,518	761,925
Plant Acquisition Adjustment	610,168	610,168
	\$ 4,012,587	\$ 3,499,748
Less: Accumulated Provision for Depreciation and Amortization	1,778,312	1,661,207
	\$ 2,234,275	\$ 1,838,541
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 107,506	\$ 113,864
CURRENT ASSETS		
Cash - General	\$ 44,517	\$ 41,241
Accounts Receivable - Customers (Less allowance for uncollectibles of \$14,611 in 2008 and \$11,596 in 2007)	14,545	22,030
Accounts Receivable - Graham County Electric Cooperative		42,349
Accounts Receivable - Gas Department		160,862
Materials and Supplies	51,158	54,926
Other Current and Accrued Assets	11,914	15,981
Total Current Assets	\$ 122,134	\$ 337,389
DEFERRED CHARGES	\$ 16,863	\$ 20,293
	\$ 2,480,778	\$ 2,310,087

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	229,758	254,834
	\$ 232,258	\$ 257,334
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 422,570	\$ 471,401
AEPCCO Notes Payable Less Current Maturities	25,667	45,834
USDA Rural Development Notes Less Current Maturities	1,557,427	1,372,878
	\$ 2,005,664	\$ 1,890,113
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 90,500	\$ 94,400
Accounts Payable - Other	54,940	37,062
Accounts Payable - Graham County Electric Cooperative	66,942	
Accrued Taxes	19,684	19,567
Customers' Deposits and Prepayments	8,540	9,190
Accrued Interest	2,250	2,421
Total Current Liabilities	\$ 242,856	\$ 162,640
	\$ 2,480,778	\$ 2,310,087

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 5**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

	September 30,		Increase (Decrease)
	2008	2007	
<b>OPERATING REVENUES</b>			
Residential	\$ 520,702	\$ 495,134	\$ 25,568
Commercial and Industrial	48,371	50,055	(1,684)
Sales for Resale	33,910	37,395	(3,485)
Other Operating Revenues	3,970	2,710	1,260
Total Operating Revenues	<u>\$ 606,953</u>	<u>\$ 585,294</u>	<u>\$ 21,659</u>
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 32,595	\$ 40,810	\$ (8,215)
Operations	59,756	72,411	(12,655)
Maintenance	155,816	114,616	41,200
Customer Accounts	58,342	50,587	7,755
Administrative and General	101,478	88,907	12,571
Depreciation and Amortization	117,105	105,982	11,123
Other Interest	5,820	11,679	(5,859)
Total Operating Expenses	<u>\$ 530,912</u>	<u>\$ 484,992</u>	<u>\$ 45,920</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	<u>\$ 76,041</u>	<u>\$ 100,302</u>	<u>\$ (24,261)</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>108,791</u>	<u>67,694</u>	<u>41,097</u>
<b>OPERATING MARGINS (LOSS) - After Fixed Charge</b>	<u>\$ (32,750)</u>	<u>\$ 32,608</u>	<u>\$ (65,358)</u>
Capital Credits	<u>3,974</u>	<u>6,352</u>	<u>(2,378)</u>
<b>NET OPERATING MARGINS (LOSS)</b>	<u>\$ (28,776)</u>	<u>\$ 38,960</u>	<u>\$ (67,736)</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>3,700</u>	<u>4,607</u>	<u>(907)</u>
<b>NET MARGINS (LOSS)</b>	<u>\$ (25,076)</u>	<u>\$ 43,567</u>	<u>\$ (68,643)</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>254,834</u>	<u>211,267</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	<u><u>\$ 229,758</u></u>	<u><u>\$ 254,834</u></u>	

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 6

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins (Loss)	\$ (25,076)	\$ 43,567
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	117,105	105,982
Capital Credits - Noncash	(1,192)	(1,906)
Deferred Charges	3,430	3,429
Accounts Receivable	7,485	(6,685)
Inventories and Other Current Assets	7,835	11,500
Payables and Accrued Expenses	17,174	(13,089)
Net Advances from (to) - Gas Department	160,862	(132,812)
Net Payments from (to) - Graham County Electric Cooperative	109,291	(40,155)
Net Cash Provided by (Used in) Operating Activities	\$ 396,914	\$ (30,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Plant	\$ (512,839)	\$ (634,732)
Investments in Associated Organizations	7,550	6,866
Net Cash Used in Investing Activities	\$ (505,289)	\$ (627,866)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on Long-Term Debt from USDA	\$ 206,278	\$ 893,722
Payments on Note Payable to AEPCO	(20,166)	(22,000)
Payments on Long-Term Debt to CFC	(59,831)	(183,319)
Payments on Long-Term Debt to USDA	(14,630)	(8,684)
Net Cash Provided by Financing Activities	\$ 111,651	\$ 679,719
INCREASE IN CASH	\$ 3,276	\$ 21,684
CASH - BEGINNING OF YEAR	41,241	19,557
CASH - END OF YEAR	\$ 44,517	\$ 41,241
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 108,785	\$ 67,694
Federal Income Tax	\$ 0	\$ 0

**COMPLIANCE AND INTERNAL CONTROL SECTION**



**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1954**

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING  
AUDITS OF CFC BORROWERS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2008, and have issued our report thereon dated November 3, 2008.

In connection with our audits nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 3, 2008

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2008, and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the company's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Board of Directors  
Graham County Utilities, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This communication is intended for the information of the Board of Directors, management, USDA Rural Development, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

*Balinger, Legars, Gilbert & Moss LLP*

Certified Public Accountants

November 3, 2008

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

Compliance

We have audited the compliance of Graham County Utilities, Inc. with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Graham County Utilities, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of A-133 findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Graham County Utilities, Inc.'s management. Our responsibility is to express an opinion on Graham County Utilities, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graham County Utilities, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Graham County Utilities, Inc.'s compliance with those requirements.

In our opinion, Graham County Utilities, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of Graham County Utilities, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control over compliance.

Board of Directors  
Graham County Utilities, Inc.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Cooperative's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Cooperative's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Cooperative's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified parties.

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 3, 2008

**FEDERAL FINANCIAL ASSISTANCE SECTION**

**GRAHAM COUNTY UTILITIES, INC.**  
**SCHEDULE OF A-133 FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

I. Summary of Auditors' Results

1. Type of auditor's report issued on the financial statements: **Unqualified**
2. Significant Deficiencies: **None.**
3. There were no significant deficiencies noted; therefore, there were no material weaknesses.
4. Noncompliance which is material to the financial statements: **None**
5. Type of auditor's report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec. \_\_510(a): **No**
7. Major programs include:
  - 10.760 – Water and Waste Disposal Systems for Rural Communities
  - Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
8. Low risk auditee: **No**

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

GRAHAM COUNTY UTILITIES, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures and Indirect Costs</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>		
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 837,241



**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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1623 10<sup>TH</sup> STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2006 and 2005, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2006, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 1, 2006

GRAHAM COUNTY UTILITIES, INC.

Exhibit A

BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

ASSETS

	September 30,	
	2006	2005
UTILITY PLANT		
Plant in Service	\$ 5,086,880	\$ 4,917,312
Construction Work in Progress	279,683	131,696
Plant Acquisition Adjustment	1,025,652	1,025,652
	<u>\$ 6,392,215</u>	<u>\$ 6,074,660</u>
Less: Accumulated Provision for Depreciation and Amortization	3,378,966	3,200,658
	<u>\$ 3,013,249</u>	<u>\$ 2,874,002</u>
OTHER PROPERTY AND INVESTMENTS		
Investments in Associated Organizations	\$ 262,517	\$ 270,615
CURRENT ASSETS		
Cash - General	\$ 19,557	\$ 19,124
Accounts Receivable (Less allowance for uncollectibles of \$68,188 in 2006 and \$40,641 in 2005)	94,327	129,710
Underbilled Consumer Fuel Cost		232,035
Materials and Supplies	133,587	122,733
Other Current and Accrued Assets	45,556	31,149
Total Current Assets	<u>\$ 293,027</u>	<u>\$ 534,751</u>
DEFERRED CHARGES	\$ 52,559	\$ 60,900
	<u>\$ 3,621,352</u>	<u>\$ 3,740,268</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 29,945	\$ 29,445
Accumulated Margins	311,801	124,813
	<u>\$ 341,746</u>	<u>\$ 154,258</u>
LONG - TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 1,965,600	\$ 2,109,830
AEPCO Note Payable Less Current Maturities	67,834	89,834
Graham County Electric Cooperative Note Payable Less Current Maturities	95,096	131,100
USDA Rural Development Note Payable Less Current Maturities	492,941	501,629
	<u>\$ 2,621,471</u>	<u>\$ 2,832,393</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 201,904	\$ 182,944
Accounts Payable - Other	147,077	103,853
Accounts Payable - Graham County Electric Coop	75,761	314,433
Overbilled Consumers Fuel Cost	76,809	
Customers' Deposits and Prepayments	82,730	75,160
Accrued Payroll	927	3,487
Accrued Taxes	55,329	59,291
Accrued Interest	17,598	14,449
Total Current Liabilities	<u>\$ 658,135</u>	<u>\$ 753,617</u>
	<u>\$ 3,621,352</u>	<u>\$ 3,740,268</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

	September 30,	
	2006	2005
OPERATING REVENUES	\$ 4,254,119	\$ 3,575,368
OPERATING EXPENSES		
Purchased Gas	\$ 2,425,984	\$ 1,846,966
Power for Pumping	27,050	24,647
Operations	290,160	294,506
Maintenance	322,259	314,284
Consumer Accounts	264,277	235,543
Administrative and General	340,817	346,782
Depreciation and Amortization	216,916	210,726
Other Interest	40,885	36,889
Total Operating Expenses	\$ 3,928,348	\$ 3,310,343
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 325,771	\$ 265,025
Interest on Long-Term Debt	167,956	169,880
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 157,815	\$ 95,145
Capital Credits	16,936	14,840
NET OPERATING MARGINS	\$ 174,751	\$ 109,985
NONOPERATING MARGINS		
Interest	12,237	16,851
NET MARGINS	\$ 186,988	\$ 126,836
ACCUMULATED MARGINS - BEGINNING OF YEAR	124,813	(2,023)
ACCUMULATED MARGINS - END OF YEAR	\$ 311,801	\$ 124,813

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

Exhibit C

**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	September 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 186,988	\$ 126,836
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	216,916	210,726
Capital Credits - Noncash	(16,936)	(14,840)
Overbilled Fuel Cost	308,844	(308,570)
Deferred Charges	8,341	5,702
Accounts Receivable	35,383	(62,733)
Inventories and Other Current Assets	(25,261)	(20,299)
Payables and Accrued Expenses	47,423	4,686
Net Payments to (from) - Graham County Electric Cooperative	(238,672)	493,166
Net Cash Provided by Operating Activities	\$ 523,026	\$ 434,674
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (356,165)	\$ (274,887)
Investments in Associated Organizations	25,034	22,226
Net Cash Used in Investing Activities	\$ (331,131)	\$ (252,661)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (23,833)
Payments on Long-Term Debt to CFC	(128,230)	(119,280)
Payments on Long-Term Debt to GCEC	(33,444)	(31,065)
Payments on Long-Term Debt to USDA	(8,288)	(7,904)
Memberships	500	285
Net Cash Used in Financing Activities	\$ (191,462)	\$ (181,797)
<b>INCREASE IN CASH</b>	\$ 433	\$ 216
<b>CASH - BEGINNING OF YEAR</b>	19,124	18,908
<b>CASH - END OF YEAR</b>	\$ 19,557	\$ 19,124
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 107,956	\$ 169,880
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2006 and 2005, was estimated to be \$72,243 and \$72,052 in the gas department and \$37,533 and \$39,983 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2006 and 2005, the cooperative had overbilled (underbilled) of \$318,195 and \$(300,362), respectively.

**Group Concentration of Credit Risk**

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$82,730 and \$75,160 at September 30, 2006 and 2005, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.



**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Federal Income Tax Status**

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

**Allowance for Uncollectible Accounts**

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

**3. Utility Plant and Depreciation**

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2006			September 30,
	Gas Department	Water Department	Total	2005 Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		464,181	464,181	475,536
Transmission		983,468	983,468	983,468
Distribution	2,941,387	296,982	3,238,369	3,064,798
General	105,364	197,845	303,209	295,857
Land and Land Rights	1,416	16,007	17,423	17,423
Total Plant in Service	\$ 3,090,689	\$ 1,996,191	\$ 5,086,880	\$ 4,917,312
Construction Work in Progress	21,026	258,657	279,683	131,696
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,527,199	\$ 2,865,016	\$ 6,392,215	\$ 6,074,660

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2006 and 2005, totaled \$216,916 and \$210,726, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2006, are summarized as follows:

	Gas Department	Water Department
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 265,910	\$ 390,507
Current Year	16,619	24,407
	\$ 282,529	\$ 414,914
Unamortized Adjustment	\$ 132,955	\$ 195,254

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	September 30,	
	2006	2005
CFC		
Capital Term Certificates	\$ 168,238	\$ 175,093
Patronage Capital	87,152	88,395
Memberships	1,000	1,000
	\$ 256,390	\$ 264,488
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,127	\$ 6,127
	\$ 262,517	\$ 270,615

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2006	2005
Gas Department		
Rate Filing Costs	\$ 2,087	\$ 3,130
Unamortized Debt Expense	26,750	30,618
	<u>\$ 28,837</u>	<u>\$ 33,748</u>
Water Department		
Unamortized Debt Expense	\$ 23,722	\$ 27,152
	<u>23,722</u>	<u>27,152</u>
	<u>\$ 52,559</u>	<u>\$ 60,900</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2006 and 2005, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2006	2005
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	20,280	19,780
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,665</u>	<u>4,665</u>
	<u>\$ 29,945</u>	<u>\$ 29,445</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006 Nine Months	84,023	44,528	128,551
	\$ 100,534	\$ 293,302	\$ 393,836
Patronage Capital Retired		(82,035)	(82,035)
	\$ 100,534	\$ 211,267	\$ 311,801

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2006 and 2005, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2006	2005
Fixed - 7.10%	\$ 929,167	\$ 1,012,695
Variable (7.30% in 2006, 5.85% in 2005)	316,644	342,776
Fixed - 7.45%	473,294	483,510
Fixed - 4.30%	381,695	390,049
	\$ 2,100,800	\$ 2,229,030
Less: Current Maturities	135,200	119,200
	<u>\$ 1,965,600</u>	<u>\$ 2,109,830</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2006, annual maturities of long-term debt due CFC for the next five years is as follows:

2007	\$ 135,200
2008	145,000
2009	155,300
2010	166,600
2011	178,500

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2006	2005
5% Note Maturing March 2032	\$ 150,203	\$ 153,056
4.5% Note Maturing August 2035	261,530	265,855
4.5% Note Maturing July 2040	89,908	91,024
	\$ 501,641	\$ 509,935
Less: Current Maturities	8,700	8,306
	<u>\$ 492,941</u>	<u>\$ 501,629</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2006, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2007	\$ 8,700
2008	9,100
2009	9,500
2010	10,000
2011	10,500

**10. Graham County Electric Note Payable**

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2006, is \$131,100. Annual maturities due to Graham County Electric Cooperative for the next four years are as follows:

2007	\$ 36,004
2008	38,800
2009	41,700
2010	14,596

**11. AEPCO Note Payable**

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2006, is \$89,834. Annual maturities due to AEPCO for the next five years are as follows:

2007	\$ 22,000
2008	22,000
2009	22,000
2010	22,000
2011	1,834

**12. Related Parties**

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	2006	2005
Graham County Utilities, Inc.		
Accounts Payable	\$ (75,766)	\$ (314,433)
Note Payable	<u>(131,100)</u>	<u>(164,544)</u>
Net Due to Affiliated Cooperative	<u>\$ (206,866)</u>	<u>\$ (478,977)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 75,766	\$ 164,544
Note Receivable	<u>131,100</u>	<u>314,433</u>
Net Due from Affiliated Cooperative	<u>\$ 206,866</u>	<u>\$ 478,977</u>

**13. Litigation**

The cooperative is not involved in any litigation that would materially affect the financial statements.



**ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

November 1, 2006

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 1

BALANCE SHEET  
SEPTEMBER 30, 2006 AND 2005

ASSETS

	September 30,	
	2006	2005
UTILITY PLANT		
Plant in Service	\$ 3,090,889	\$ 2,941,956
Construction Work in Progress	21,026	50,374
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,527,199</u>	<u>\$ 3,407,814</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>1,823,740</u>	<u>1,745,656</u>
	<u>\$ 1,703,459</u>	<u>\$ 1,662,158</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 143,693	\$ 147,282
CURRENT ASSETS		
Accounts Receivable (Less allowance for uncollectibles of \$54,700 in 2006 and \$31,111 in 2005)	\$ 78,982	\$ 107,442
Underbilled Consumers Fuel Cost		232,035
Materials and Supplies	65,567	78,458
Other Current and Accrued Assets	31,169	23,359
Total Current Assets	<u>\$ 175,718</u>	<u>\$ 441,294</u>
Deferred Charges	\$ 28,837	\$ 33,748
	<u>\$ 2,051,707</u>	<u>\$ 2,284,482</u>

EQUITIES AND LIABILITIES

MEMBERS' EQUITY		
Memberships	\$ 27,445	\$ 26,945
Accumulated Margins (Deficits)	100,534	(32,263)
	<u>\$ 127,979</u>	<u>\$ (5,318)</u>
LONG -TERM DEBT		
Note Payable - Graham County Electric Cooperative	\$ 95,096	\$ 131,100
CFC Mortgage Notes Less Current Maturities	1,309,580	1,391,511
	<u>\$ 1,404,676</u>	<u>\$ 1,522,611</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 113,904	\$ 103,344
Accounts Payable - Other	97,297	82,796
Accounts Payable - Graham County Electric Cooperative	77,955	314,398
Accounts Payable - Water Department	28,050	146,490
Overbilled Consumers Fuel Cost	76,809	
Accrued Taxes	36,501	38,682
Customers' Deposits and Prepayments	72,830	66,480
Accrued Payroll	771	2,878
Accrued Interest	14,935	12,121
Total Current Liabilities	<u>\$ 519,052</u>	<u>\$ 767,189</u>
	<u>\$ 2,051,707</u>	<u>\$ 2,284,482</u>

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

Schedule 2

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	September 30,		Increase (Decrease)
	2006	2005	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,901,626	\$ 2,047,559	\$ 854,067
Irrigation	27,473	13,332	14,141
Commercial and Industrial	1,055,917	629,413	426,504
Fuel Cost Under (Over) Billed	(318,195)	300,362	(618,557)
Other Operating Revenues	21,180	19,700	1,480
Total Operating Revenues	<u>\$ 3,688,001</u>	<u>\$ 3,010,366</u>	<u>\$ 677,635</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 2,425,984	\$ 1,846,966	\$ 579,018
Operations	227,275	229,205	(1,930)
Maintenance	195,706	182,330	13,376
Customer Accounts	219,205	194,397	24,808
Administrative and General	261,096	261,449	(353)
Depreciation and Amortization	110,613	106,226	4,387
Other Interest	43,444	33,002	10,442
Total Operating Expenses	<u>\$ 3,483,323</u>	<u>\$ 2,853,575</u>	<u>\$ 629,748</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	<u>\$ 204,678</u>	<u>\$ 156,791</u>	<u>\$ 47,887</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>91,511</u>	<u>92,640</u>	<u>(1,129)</u>
<b>OPERATING MARGINS - After Fixed Charges</b>	<u>\$ 113,167</u>	<u>\$ 64,151</u>	<u>\$ 49,016</u>
Capital Credits	<u>8,976</u>	<u>7,453</u>	<u>1,523</u>
<b>NET OPERATING MARGINS</b>	<u>\$ 122,143</u>	<u>\$ 71,604</u>	<u>\$ 50,539</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>10,654</u>	<u>8,327</u>	<u>2,327</u>
<b>NET MARGINS</b>	<u>\$ 132,797</u>	<u>\$ 79,931</u>	<u>\$ 52,866</u>
<b>ACCUMULATED DEFICITS - BEGINNING OF YEAR</b>	<u>(32,263)</u>	<u>(112,194)</u>	
<b>ACCUMULATED MARGINS (DEFICITS) - END OF YEAR</b>	<u>\$ 100,534</u>	<u>\$ (32,263)</u>	

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	September 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 132,797	\$ 79,931
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	110,613	106,226
Capital Credits - Noncash	(8,976)	(7,453)
Deferred Charges	4,911	2,273
Overbilled Fuel Cost - Net	308,844	(308,570)
Accounts Receivable	28,460	(52,066)
Inventories and Other Current Assets	5,081	(5,889)
Payables and Accrued Expenses	19,377	(218)
Net Payments to - Water Department	(118,440)	116,017
Net Payments to - Graham County Electric Cooperative	(236,443)	316,933
Net Cash Provided by Operating Activities	\$ 246,224	\$ 247,184
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (151,914)	\$ (158,515)
Investments in Associated Organizations	12,565	10,989
Net Cash Used in Investing Activities	\$ (139,349)	\$ (147,526)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt - CFC	\$ (73,931)	\$ (68,878)
Payments on Long-Term Debt - Graham County Electric Cooperative	(33,444)	(31,065)
Memberships	500	285
Net Cash Used in Financing Activities	\$ (106,875)	\$ (99,658)
<b>INCREASE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	0	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 91,511	\$ 92,640
Federal Income Tax	\$ 0	\$ 0

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 4**

**BALANCE SHEET  
SEPTEMBER 30, 2006 AND 2005**

**ASSETS**

	September 30,	
	2006	2005
<b>UTILITY PLANT AT COST</b>		
Water Plant in Service	\$ 1,996,191	\$ 1,975,356
Construction Work in Progress	258,657	81,322
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,865,016</u>	<u>\$ 2,666,846</u>
Less: Accumulated Provision for Depreciation and Amortization	1,555,226	1,455,002
	<u>\$ 1,309,790</u>	<u>\$ 1,211,844</u>
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 118,824	\$ 123,333
 <b>CURRENT ASSETS</b>		
Cash - General	\$ 19,557	\$ 19,124
Accounts Receivable - Customers (Less allowance for uncollectibles of \$13,488 in 2006 and \$9,530 in 2005)	15,345	22,268
Accounts Receivable - Graham County Electric Cooperative	2,194	
Accounts Receivable - Gas Department	28,050	146,490
Materials and Supplies	68,020	44,275
Other Current and Accrued Assets	14,387	7,790
Total Current Assets	<u>\$ 147,553</u>	<u>\$ 239,947</u>
 <b>DEFERRED CHARGES</b>	<u>\$ 23,722</u>	<u>\$ 27,152</u>
	<u>\$ 1,599,889</u>	<u>\$ 1,602,276</u>

**EQUITIES AND LIABILITIES**

<b>EQUITY</b>		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	211,267	157,076
	<u>\$ 213,767</u>	<u>\$ 159,576</u>
 <b>LONG-TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 656,020	\$ 718,319
AEPCO Notes Payable Less Current Maturities	67,834	89,834
USDA Rural Development Notes Less Current Maturities	492,941	501,629
	<u>\$ 1,216,795</u>	<u>\$ 1,309,782</u>
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 88,000	\$ 79,600
Accounts Payable - Other	49,780	21,057
Accounts Payable - Related Parties		35
Accrued Taxes	18,828	20,609
Customers' Deposits and Prepayments	9,900	8,680
Accrued Payroll	156	609
Accrued Interest	2,663	2,328
Total Current Liabilities	<u>\$ 169,327</u>	<u>\$ 132,918</u>
	<u>\$ 1,599,889</u>	<u>\$ 1,602,276</u>

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 5**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	September 30,		Increase (Decrease)
	2006	2005	
<b>OPERATING REVENUES</b>			
Residential	\$ 487,140	\$ 484,743	\$ 2,397
Commercial and Industrial	46,612	48,192	(1,580)
Sales for Resale	30,236	29,907	329
Other Operating Revenues	2,130	2,160	(30)
Total Operating Revenues	\$ <u>566,118</u>	\$ <u>565,002</u>	\$ <u>1,116</u>
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 27,050	\$ 24,647	\$ 2,403
Operations	62,885	65,301	(2,416)
Maintenance	126,553	131,954	(5,401)
Customer Accounts	45,072	41,146	3,926
Administrative and General	79,721	85,333	(5,612)
Depreciation and Amortization	106,303	104,500	1,803
Other Interest	4,062	3,887	175
Total Operating Expenses	\$ <u>451,646</u>	\$ <u>456,768</u>	\$ <u>(5,122)</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	\$ 114,472	\$ 108,234	\$ 6,238
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>76,445</u>	<u>77,240</u>	<u>(795)</u>
<b>OPERATING MARGINS - After Fixed Charges</b>	\$ 38,027	\$ 30,994	\$ 7,033
Capital Credits	<u>7,960</u>	<u>7,387</u>	<u>573</u>
<b>NET OPERATING MARGINS</b>	\$ 45,987	\$ 38,381	\$ 7,606
<b>NONOPERATING MARGINS</b>			
Interest	<u>8,204</u>	<u>8,524</u>	<u>(320)</u>
<b>NET MARGINS</b>	\$ 54,191	\$ 46,905	\$ <u>7,286</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>157,076</u>	<u>110,171</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	\$ <u><u>211,267</u></u>	\$ <u><u>157,076</u></u>	

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 6**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005**

	September 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 54,191	\$ 46,905
Adjustments to Reconcile Net Margins to Net Cash		
Provided by Operating Activities		
Depreciation and Amortization	106,303	104,500
Capital Credits - Noncash	(7,960)	(7,387)
Deferred Charges	3,430	3,429
Accounts Receivable	6,923	(10,667)
Inventories and Other Current Assets	(30,342)	(14,410)
Payables and Accrued Expenses	28,046	4,904
Net Advances from (to) - Gas Department	118,440	(116,017)
Net Payments from (to) - Graham County Electric Cooperative	(2,229)	176,233
Net Cash Provided by Operating Activities	\$ 276,802	\$ 187,490
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (204,251)	\$ (116,372)
Investments in Associated Organizations	12,469	11,237
Net Cash Used in Investing Activities	\$ (191,782)	\$ (105,135)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Note Payable to AEPCO	\$ (22,000)	\$ (23,833)
Payments on Long-Term Debt to CFC	(54,299)	(50,402)
Payments on Long-Term Debt to USDA	(8,288)	(7,904)
Net Cash Used in Financing Activities	\$ (84,587)	\$ (82,139)
<b>INCREASE IN CASH</b>	\$ 433	\$ 216
<b>CASH - BEGINNING OF YEAR</b>	19,124	18,908
<b>CASH - END OF YEAR</b>	\$ 19,557	\$ 19,124
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 16,445	\$ 77,240
Federal Income Tax	\$ 0	\$ 0



**COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

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LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING  
AUDITS OF CFC BORROWERS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2006, and have issued our report thereon dated November 1, 2006.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 1, 2006

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2006, and have issued our report thereon dated November 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 1, 2006

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2005 and 2004, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2005, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 27, 2005

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GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

**ASSETS**

	September 30,	
	2005	2004
<b>UTILITY PLANT</b>		
Plant in Service	\$ 4,917,312	\$ 4,770,688
Construction Work in Progress	131,696	3,433
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 6,074,660	\$ 5,799,773
Less: Accumulated Provision for Depreciation and Amortization	<u>3,200,658</u>	<u>2,989,932</u>
	<u>\$ 2,874,002</u>	<u>\$ 2,809,841</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	\$ 270,615	\$ 278,018
<b>CURRENT ASSETS</b>		
Cash - General	\$ 19,124	\$ 18,908
Accounts Receivable (Less allowance for uncollectibles of \$40,641 in 2005 and \$29,177 in 2004)	129,710	66,977
Underbilled Consumer Fuel Cost	232,035	
Accounts Receivable - Graham County Electric Cooperative		178,723
Materials and Supplies	122,733	95,296
Other Current and Accrued Assets	<u>31,149</u>	<u>38,287</u>
Total Current Assets	<u>\$ 534,751</u>	<u>\$ 398,191</u>
<b>DEFERRED CHARGES</b>	\$ 60,900	\$ 66,602
	<u>\$ 3,740,268</u>	<u>\$ 3,552,652</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 29,445	\$ 29,160
Accumulated Margins (Deficits)	<u>124,813</u>	<u>(2,023)</u>
	<u>\$ 154,258</u>	<u>\$ 27,137</u>
<b>LONG - TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 2,109,830	\$ 2,229,111
AEPCO Note Payable Less Current Maturities	89,834	111,834
Graham County Electric Cooperative Note Payable Less Current Maturities	<u>131,100</u>	<u>164,544</u>
USDA Rural Development Note Payable Less Current Maturities	<u>501,629</u>	<u>509,939</u>
	<u>\$ 2,832,393</u>	<u>\$ 3,015,428</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 182,944	\$ 181,998
Accounts Payable - Other	103,853	105,646
Accounts Payable - Graham County Electric Coop	314,433	
Overbilled Consumers Fuel Cost		76,535
Customers' Deposits and Prepayments	75,160	71,205
Accrued Payroll	3,487	
Accrued Taxes	59,291	62,378
Accrued Interest	<u>14,449</u>	<u>12,325</u>
Total Current Liabilities	<u>\$ 753,617</u>	<u>\$ 510,087</u>
	<u>\$ 3,740,268</u>	<u>\$ 3,552,652</u>

See accompanying notes to financial statements.



GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,	
	2005	2004
OPERATING REVENUES	\$ 3,575,368	\$ 3,294,237
OPERATING EXPENSES		
Purchased Gas	\$ 1,846,966	\$ 1,629,487
Power for Pumping	24,647	33,811
Operations	294,506	299,383
Maintenance	314,284	348,767
Consumer Accounts	235,543	247,596
Administrative and General	346,782	318,822
Depreciation and Amortization	210,726	207,495
Other Interest	36,889	30,437
Total Operating Expenses	\$ 3,310,343	\$ 3,115,798
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 265,025	\$ 178,439
Interest on Long-Term Debt	169,880	161,691
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 95,145	\$ 16,748
Capital Credits	14,840	12,417
NET OPERATING MARGINS	\$ 109,985	\$ 29,165
NONOPERATING MARGINS		
Interest	16,851	7,194
NET MARGINS	\$ 126,836	\$ 36,359
ACCUMULATED (DEFICITS) - BEGINNING OF YEAR	(2,023)	(38,382)
ACCUMULATED MARGINS (DEFICITS) - END OF YEAR	\$ 124,813	\$ (2,023)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 126,836	\$ 36,359
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	210,726	207,495
Capital Credits - Noncash	(14,840)	(12,417)
Overbilled Fuel Cost	(308,570)	(389,707)
Deferred Charges	5,702	10,239
Accounts Receivable	(62,733)	2,202
Inventories and Other Current Assets	(20,299)	12,494
Payables and Accrued Expenses	4,686	27,572
Net Payments to (from) - Graham County Electric Cooperative	493,166	(24,780)
Net Cash Provided by (Used in) Operating Activities	\$ 434,674	\$ (130,543)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (274,887)	\$ (131,175)
Investments in Associated Organizations	22,226	23,094
Net Cash Used in Investing Activities	\$ (252,661)	\$ (108,081)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from CFC	\$	\$ 400,000
Payments on Note Payable to AEPCO	(23,833)	(20,168)
Payments on Long-Term Debt to CFC	(119,280)	(105,248)
Payments on Long-Term Debt to GCEC	(31,065)	(28,856)
Payments on Long-Term Debt to USDA	(7,904)	(7,549)
Memberships	285	600
Net Cash Provided by (Used in) Financing Activities	\$ (181,797)	\$ 238,779
<b>INCREASE IN CASH</b>	\$ 216	\$ 155
<b>CASH - BEGINNING OF YEAR</b>	18,908	18,753
<b>CASH - END OF YEAR</b>	\$ 19,124	\$ 18,908
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 169,880	\$ 177,338
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

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**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2005 and 2004, was estimated to be \$72,216 and \$46,755 in the gas department and \$39,979 and \$32,921 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2005 and 2004, the cooperative had overbilled (underbilled) of \$(232,035) and \$76,535, respectively.

**Group Concentration of Credit Risk**

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$75,160 and \$71,205 at September 30, 2005 and 2004, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Federal Income Tax Status**

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

**Allowance for Uncollectible Accounts**

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectibility. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

**3. Utility Plant and Depreciation**

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2005			September 30,
	Gas Department	Water Department	Total	2004 Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		475,536	475,536	457,892
Transmission		983,468	983,468	983,468
Distribution	2,794,186	270,612	3,064,798	2,943,485
General	103,832	192,025	295,857	288,190
Land and Land Rights	1,416	16,007	17,423	17,423
Total Plant in Service	\$ 2,941,956	\$ 1,975,356	\$ 4,917,312	\$ 4,770,688
Construction Work in Progress	50,374	81,322	131,696	3,433
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,407,814	\$ 2,666,846	\$ 6,074,660	\$ 5,799,773

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2005 and 2004, totaled \$210,726 and \$207,495, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2005, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,485	\$ 610,168
Less: Amortization		
Prior Periods	\$ 249,291	\$ 366,100
Current Year	16,619	24,407
	<u>\$ 265,910</u>	<u>\$ 390,507</u>
Unamortized Adjustment	<u>\$ 149,575</u>	<u>\$ 219,661</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2005</u>	<u>2004</u>
CFC		
Capital Term Certificates	\$ 175,093	\$ 181,168
Patronage Capital	88,395	90,502
Memberships	1,000	1,000
	<u>\$ 264,488</u>	<u>\$ 272,670</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 6,127	\$ 5,348
	<u>\$ 270,615</u>	<u>\$ 278,018</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2005	2004
Gas Department		
Rate Filing Costs	\$ 3,130	\$ 1,535
Unamortized Debt Expense	30,618	34,485
	<u>\$ 33,748</u>	<u>\$ 36,020</u>
Water Department		
Unamortized Debt Expense	\$ 27,152	\$ 30,582
	<u>27,152</u>	<u>30,582</u>
	<u>\$ 60,900</u>	<u>\$ 66,602</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2005 and 2004, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2005	2004
Class A Memberships		
Graham County Electric Cooperative, Inc.,		
entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric		
Cooperative, Inc., \$5 membership fee, entitled		
to one vote per membership	19,780	19,495
Class C Memberships		
All others who receive service, \$5 membership		
fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 29,445</u>	<u>\$ 29,160</u>

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**7. Accumulated Margins (Deficits)**

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005 Nine Months	43,672	37,579	81,251
	<u>\$ (32,263)</u>	<u>\$ 239,111</u>	<u>\$ 206,848</u>
Patronage Capital Retired		<u>(82,035)</u>	<u>(82,035)</u>
	<u>\$ (32,263)</u>	<u>\$ 157,076</u>	<u>\$ 124,813</u>

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2005 and 2004, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.



GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2005	2004
Fixed - 7.10%	\$ 1,012,695	\$ 1,090,547
Variable (5.85% in 2005, 3.70% in 2004)	342,776	366,713
Fixed - 7.45%	483,510	492,999
Fixed - 4.30%	390,049	398,052
	<u>\$ 2,229,030</u>	<u>\$ 2,348,311</u>
Less: Current Maturities	<u>119,200</u>	<u>119,200</u>
	<u>\$ 2,109,830</u>	<u>\$ 2,229,111</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2005, annual maturities of long-term debt due CFC for the next five years is as follows:

2006	\$ 119,200
2007	126,900
2008	135,100
2009	143,900
2010	153,200

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2005	2004
5% Note Maturing March 2032	\$ 153,056	\$ 155,770
4.5% Note Maturing August 2035	265,855	269,989
4.5% Note Maturing July 2040	91,024	92,080
	<u>\$ 509,935</u>	<u>\$ 517,839</u>
Less: Current Maturities	<u>8,306</u>	<u>7,900</u>
	<u>\$ 501,629</u>	<u>\$ 509,939</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2005, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2006	\$ 8,306
2007	8,700
2008	9,100
2009	9,500
2010	10,000

**10. Graham County Electric Note Payable**

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2005, is \$164,544. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

2006	\$ 33,444
2007	36,000
2008	38,800
2009	41,700
2010	14,600

**11. AEPCO Note Payable**

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2005, is \$111,834. Annual maturities due to AEPCO for the next five years are as follows:

2006	\$ 22,000
2007	22,000
2008	22,000
2009	22,000
2010	22,000

**12. Related Parties**

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	2005	2004
Graham County Utilities, Inc.		
Accounts Receivable (Payable)	\$ (314,433)	\$ 178,723
Note Payable	<u>(164,544)</u>	<u>(195,609)</u>
Net Due to Affiliated Cooperative	<u>\$ (478,977)</u>	<u>\$ (16,886)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable (Payable)	\$ 314,433	\$ (178,723)
Note Receivable	<u>164,544</u>	<u>195,609</u>
Net Due from Affiliated Cooperative	<u>\$ 478,977</u>	<u>\$ 16,886</u>

13. Litigation

The cooperative is not involved in any litigation that would materially affect the financial statements.

**ACCOMPANYING INFORMATION**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 27, 2005

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 1**

**BALANCE SHEET  
SEPTEMBER 30, 2005 AND 2004**

**ASSETS**

	September 30,	
	2005	2004
<b>UTILITY PLANT</b>		
Plant in Service	\$ 2,941,956	\$ 2,832,033
Construction Work in Progress	50,374	1,782
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,407,814</u>	<u>\$ 3,249,299</u>
Less: Accumulated Provision for Depreciation and Amortization	1,745,656	1,639,430
	<u>\$ 1,662,158</u>	<u>\$ 1,609,869</u>
<b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 147,282	\$ 150,818
<b>CURRENT ASSETS</b>		
Accounts Receivable (Less allowance for uncollectibles of \$31,111 in 2005 and \$21,324 in 2004)	\$ 107,442	\$ 55,376
Underbilled Consumers Fuel Cost	232,035	
Accounts Receivable - GCEC		2,535
Materials and Supplies	78,458	67,202
Other Current and Accrued Assets	23,359	28,726
Total Current Assets	<u>\$ 441,294</u>	<u>\$ 153,839</u>
Deferred Charges	\$ 33,748	\$ 36,021
	<u>\$ 2,284,482</u>	<u>\$ 1,950,547</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 26,945	\$ 26,660
Accumulated Deficits	(32,263)	(112,194)
	<u>\$ (5,318)</u>	<u>\$ (85,534)</u>
<b>LONG -TERM DEBT</b>		
Note Payable - Graham County Electric Cooperative	\$ 131,100	\$ 164,544
CFC Mortgage Notes Less Current Maturities	1,391,511	1,460,389
	<u>\$ 1,522,611</u>	<u>\$ 1,624,933</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 103,344	\$ 100,965
Accounts Payable - Other	82,796	85,897
Accounts Payable - Graham County Electric Cooperative	314,398	
Accounts Payable - Water Department	146,490	30,473
Overbilled Consumers Fuel Cost		76,535
Accrued Taxes	38,682	43,692
Customers' Deposits and Prepayments	66,480	63,370
Accrued Payroll	2,878	
Accrued Interest	12,121	10,216
Total Current Liabilities	<u>\$ 767,189</u>	<u>\$ 411,148</u>
	<u>\$ 2,284,482</u>	<u>\$ 1,950,547</u>

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 2**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	September 30,		Increase (Decrease)
	2005	2004	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,047,559	\$ 1,785,736	\$ 261,823
Irrigation	13,332	24,286	(10,954)
Commercial and Industrial	629,413	513,134	116,279
Fuel Cost Overbilled	19,700	22,230	(2,530)
Other Operating Revenues	300,362	391,697	(91,335)
Total Operating Revenues	\$ 3,010,366	\$ 2,737,083	\$ 273,283
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 1,846,966	\$ 1,629,487	\$ 217,479
Operations	229,205	233,323	(4,118)
Maintenance	182,330	196,831	(14,501)
Customer Accounts	194,397	204,843	(10,446)
Administrative and General	261,449	236,883	24,566
Depreciation and Amortization	106,226	103,638	2,588
Other Interest	33,002	26,536	6,466
Total Operating Expenses	\$ 2,853,575	\$ 2,631,541	\$ 222,034
<b>OPERATING MARGINS - Before Fixed Charges</b>	\$ 156,791	\$ 105,542	\$ 51,249
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	92,640	84,185	8,455
<b>OPERATING MARGINS - After Fixed Charges</b>	\$ 64,151	\$ 21,357	\$ 42,794
Capital Credits	7,453	6,581	872
<b>NET OPERATING MARGINS</b>	\$ 71,604	\$ 27,938	\$ 43,666
<b>NONOPERATING MARGINS</b>			
Interest	8,327	3,094	5,233
<b>NET MARGINS</b>	\$ 79,931	\$ 31,032	\$ 48,899
<b>ACCUMULATED DEFICITS - BEGINNING OF YEAR</b>	(112,194)	(143,226)	
<b>ACCUMULATED DEFICITS - END OF YEAR</b>	\$ (32,263)	\$ (112,194)	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004

	September 30,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 79,931	\$ 31,032
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	106,226	103,638
Capital Credits - Noncash	(7,453)	(6,581)
Deferred Charges	2,273	6,049
Overbilled Fuel Cost - Net	(308,570)	(389,707)
Accounts Receivable	(52,066)	(428)
Inventories and Other Current Assets	(5,889)	4,652
Payables and Accrued Expenses	(218)	21,946
Net Payments to - Water Department	116,017	23,190
Net Payments to - Graham County Electric Cooperative	316,933	(15,304)
Net Cash Provided by (Used in) Operating Activities	\$ 247,184	\$ (221,513)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (158,515)	\$ (103,611)
Investments in Associated Organizations	10,989	11,839
Net Cash Used in Investing Activities	\$ (147,526)	\$ (91,772)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from CFC	\$	\$ 400,000
Payments on Long-Term Debt - CFC	(68,878)	(58,459)
Payments on Long-Term Debt - Graham County Electric Cooperative Memberships	(31,065) 285	(28,856) 600
Net Cash Provided by (Used in) Financing Activities	\$ (99,658)	\$ 313,285
<b>INCREASE (DECREASE) IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	0	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid during the year for:		
Interest on Long-Term Debt	\$ 92,640	\$ 99,830
Federal Income Tax	\$ 0	\$ 0



GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 4

BALANCE SHEET  
SEPTEMBER 30, 2005 AND 2004

ASSETS

	September 30,	
	2005	2004
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,975,356	\$ 1,938,655
Construction Work in Progress	81,322	1,651
Plant Acquisition Adjustment	610,168	610,168
	\$ 2,666,846	\$ 2,550,474
Less: Accumulated Provision for Depreciation and Amortization	1,455,002	1,350,502
	\$ 1,211,844	\$ 1,199,972
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 123,333	\$ 127,200
CURRENT ASSETS		
Cash - General	\$ 19,124	\$ 18,908
Accounts Receivable - Customers (Less allowance for uncollectibles of \$9,530 in 2005 and \$7,853 in 2004)	22,268	11,601
Accounts Receivable - Gas Department	146,490	30,473
Accounts Receivable - Graham County Electric Cooperative		176,188
Materials and Supplies	44,275	28,094
Other Current and Accrued Assets	7,790	9,561
Total Current Assets	\$ 239,947	\$ 274,825
DEFERRED CHARGES	\$ 27,152	\$ 30,581
	\$ 1,602,276	\$ 1,632,578

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	157,076	110,171
	\$ 159,576	\$ 112,671
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 718,319	\$ 768,722
AEP CO Notes Payable Less Current Maturities	89,834	111,834
USDA Rural Development Notes Less Current Maturities	501,629	509,939
	\$ 1,309,782	\$ 1,390,495
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 79,600	\$ 81,033
Accounts Payable - Other	21,057	19,749
Accounts Payable - Related Parties	35	
Accrued Taxes	20,609	18,686
Customers' Deposits and Prepayments	8,680	7,835
Accrued Payroll	609	
Accrued Interest	2,328	2,109
Total Current Liabilities	\$ 132,918	\$ 129,412
	\$ 1,602,276	\$ 1,632,578

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 5**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	September 30,		Increase (Decrease)
	2005	2004	
<b>OPERATING REVENUES</b>			
Residential	\$ 484,743	\$ 474,991	\$ 9,752
Commercial and Industrial	48,192	50,980	(2,788)
Sales for Resale	29,907	29,053	854
Other Operating Revenues	2,160	2,130	30
Total Operating Revenues	\$ 565,002	\$ 557,154	\$ 7,848
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 24,647	\$ 33,811	\$ (9,164)
Operations	65,301	66,060	(759)
Maintenance	131,954	151,936	(19,982)
Customer Accounts	41,146	42,753	(1,607)
Administrative and General	85,333	81,939	3,394
Depreciation and Amortization	104,500	103,856	644
Other Interest	3,887	3,902	(15)
Total Operating Expenses	\$ 456,768	\$ 484,257	\$ (27,489)
<b>OPERATING MARGINS - Before Fixed Charges</b>	\$ 108,234	\$ 72,897	\$ 35,337
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	77,240	77,506	(266)
<b>OPERATING MARGINS (DEFICIT) - After Fixed Charges</b>	\$ 30,994	\$ (4,609)	\$ 35,603
Capital Credits	7,387	5,836	1,551
<b>NET OPERATING MARGINS (DEFICIT)</b>	\$ 38,381	\$ 1,227	\$ 37,154
<b>NONOPERATING MARGINS</b>			
Interest	8,524	4,100	4,424
<b>NET MARGINS</b>	\$ 46,905	\$ 5,327	\$ 41,578
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	110,171	104,844	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	\$ 157,076	\$ 110,171	

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 6**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	September 30,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 46,905	\$ 5,327
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	104,500	103,857
Capital Credits - Noncash	(7,387)	(5,836)
Deferred Charges	3,429	4,190
Accounts Receivable	(10,667)	2,630
Inventories and Other Current Assets	(14,410)	7,842
Payables and Accrued Expenses	4,904	5,627
Net Advances from/(to) - Gas Department	(116,017)	(23,190)
Net Payments from/(to) - Graham County Electric Cooperative	176,233	(9,476)
Net Cash Provided by Operating Activities	\$ 187,490	\$ 90,971
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (116,372)	\$ (27,564)
Investments in Associated Organizations	11,237	11,254
Net Cash Used in Investing Activities	\$ (105,135)	\$ (16,310)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Note Payable to AEPCO	\$ (23,833)	\$ (20,168)
Payments on Long-Term Debt to CFC	(50,402)	(46,789)
Payments on Long-Term Debt to USDA	(7,904)	(7,549)
Net Cash Used in Financing Activities	\$ (82,139)	\$ (74,506)
<b>INCREASE IN CASH</b>	\$ 216	\$ 155
<b>CASH - BEGINNING OF YEAR</b>	18,908	18,753
<b>CASH - END OF YEAR</b>	\$ 19,124	\$ 18,908
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid during the year for:		
Interest on Long-Term Debt	\$ 77,240	\$ 77,508
Federal Income Tax	\$ 0	\$ 0

**COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

1623 10<sup>TH</sup> STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING  
AUDITS OF CFC BORROWERS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2005, and have issued our report thereon dated October 27, 2005.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 27, 2005

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

1623 10TH STREET

LUBBOCK, TEXAS 79401-2685

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2004, and have issued our report thereon dated October 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 27, 2005

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS  
LUBBOCK, TEXAS**

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**



**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

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**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the accompanying balance sheets of Graham County Utilities, Inc., as of September 30, 2004 and 2003, and the related statements of income and accumulated margins (deficits), and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2004, on our consideration of Graham County Utilities, Inc.'s internal control over financial reporting and on its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 28, 2004

-2-  
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

**ASSETS**

	September 30,	
	2004	2003
<b>UTILITY PLANT</b>		
Plant in Service	\$ 4,770,688	\$ 4,650,377
Construction Work in Progress	3,433	(7,432)
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 5,799,773	\$ 5,668,597
Less: Accumulated Provision for Depreciation and Amortization	<u>2,989,932</u>	<u>2,782,437</u>
	<u>\$ 2,809,841</u>	<u>\$ 2,886,160</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	\$ 278,018	\$ 288,694
<b>CURRENT ASSETS</b>		
Cash - General	\$ 18,908	\$ 18,753
Accounts Receivable (Less allowance for uncollectibles of \$29,177 in 2004 and \$19,819 in 2003)	66,977	69,179
Accounts Receivable - Graham County Electric Cooperative	178,723	153,943
Materials and Supplies	95,296	95,844
Other Current and Accrued Assets	38,287	50,233
Total Current Assets	<u>\$ 398,191</u>	<u>\$ 387,952</u>
<b>DEFERRED CHARGES</b>	\$ 66,602	\$ 76,841
	<u>\$ 3,552,652</u>	<u>\$ 3,639,647</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 29,160	\$ 28,560
Accumulated Deficits	<u>(2,023)</u>	<u>(38,382)</u>
	<u>\$ 27,137</u>	<u>\$ (9,822)</u>
<b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 2,229,111	\$ 1,952,458
AEP CO Note Payable Less Current Maturities	111,834	133,833
Graham County Electric Cooperative Note Payable Less Current Maturities	164,544	195,565
USDA Rural Development Note Payable Less Current Maturities	<u>509,939</u>	<u>517,889</u>
	<u>\$ 3,015,428</u>	<u>\$ 2,799,745</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 181,998	\$ 159,500
Accounts Payable - Other	105,646	77,021
Overbilled Consumers Fuel Cost	76,535	466,242
Customers' Deposits and Prepayments	71,205	71,220
Accrued Taxes	62,378	64,080
Accrued Interest	12,325	11,661
Total Current Liabilities	<u>\$ 510,087</u>	<u>\$ 849,724</u>
	<u>\$ 3,552,652</u>	<u>\$ 3,639,647</u>

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,	
	2004	2003
OPERATING REVENUES	\$ 3,294,237	\$ 2,703,891
OPERATING EXPENSES		
Purchased Gas	\$ 1,629,487	\$ 1,064,964
Power for Pumping	33,811	15,021
Operations	299,383	294,608
Maintenance	348,767	380,567
Consumer Accounts	247,596	239,862
Administrative and General	318,822	266,684
Depreciation and Amortization	207,494	203,926
Other Interest	30,438	37,405
Total Operating Expenses	\$ 3,115,798	\$ 2,503,037
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 178,439	\$ 200,854
Interest on Long-Term Debt	161,691	161,469
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 16,748	\$ 39,385
Capital Credits	12,417	14,078
NET OPERATING MARGINS	\$ 29,165	\$ 53,463
NONOPERATING MARGINS		
Interest	7,194	5,655
NET MARGINS	\$ 36,359	\$ 59,118
ACCUMULATED DEFICITS - BEGINNING OF YEAR	(38,382)	(97,500)
ACCUMULATED DEFICITS - END OF YEAR	\$ (2,023)	\$ (38,382)

See accompanying notes to financial statements.

## GRAHAM COUNTY UTILITIES, INC.

Exhibit C

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	September 30,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 36,359	\$ 59,118
Adjustments to Reconcile Net Margins to		
Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	207,495	204,229
Capital Credits - Noncash	(12,417)	(14,078)
Overbilled Fuel Cost	(389,707)	390,657
Deferred Charges	10,239	7,827
Accounts Receivable	2,202	34,341
Inventories and Other Current Assets	12,494	(14,144)
Payables and Accrued Expenses	27,572	9,564
Net Payments to/(from) - Graham County Electric Cooperative	(24,780)	(372,050)
Net Cash Provided by (Used in) Operating Activities	\$ (130,543)	\$ 305,464
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (131,175)	\$ (177,410)
Salvage Value of Plant Retired		4,070
Investments in Associated Organizations	23,094	19,303
Net Cash Used in Investing Activities	\$ (108,081)	\$ (154,037)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from CFC	\$ 400,000	\$
Payments on Note Payable to AEPCO	(20,168)	(22,000)
Payments on Long-Term Debt to CFC	(105,248)	(95,899)
Payments on Long-Term Debt to GCEC	(28,856)	(26,804)
Payments on Long-Term Debt to USDA	(7,549)	(7,206)
Memberships	600	570
Net Cash Provided by (Used in) Financing Activities	\$ 238,779	\$ (151,339)
<b>INCREASE IN CASH</b>	\$ 155	\$ 88
<b>CASH - BEGINNING OF YEAR</b>	18,753	18,665
<b>CASH - END OF YEAR</b>	\$ 18,908	\$ 18,753
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for:		
Interest on Long-Term Debt	\$ 177,338	\$ 179,166
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2004 and 2003, was estimated to be \$46,755 and \$46,579 in the gas department and \$32,921 and \$35,636 in the water department, respectively.

The cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2004 and 2003, the cooperative had overbillings of \$76,535 and \$466,242, respectively.

**Group Concentration of Credit Risk**

The cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The cooperative records a receivable for gas and water service as billed on a monthly basis. The cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of 6%. Deposits on hand totaled \$71,205 and \$71,220 at September 30, 2004 and 2003, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Federal Income Tax Status**

The cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

**Allowance for Uncollectible Accounts**

The cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collectibility. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC).

**3. Utility Plant and Depreciation**

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the corporation acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

Major classes of utility plant are summarized as follows:

	September 30, 2004			September 30,
	Gas Department	Water Department	Total	2003 Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		457,892	457,892	457,892
Transmission		983,468	983,468	983,468
Distribution	2,687,612	255,873	2,943,485	2,835,348
General	100,484	187,706	288,190	276,016
Land and Land Rights	1,416	16,007	17,423	17,423
Total Plant in Service	\$ 2,832,034	\$ 1,938,654	\$ 4,770,688	\$ 4,650,377
Construction Work in Progress	1,782	1,651	3,433	(7,432)
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 3,249,300	\$ 2,550,473	\$ 5,799,773	\$ 5,668,597

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		4%
Transmission		4%
Distribution		4%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.7% - 13.3%	10% - 20%

Depreciation accruals charged to expense for the periods ended September 30, 2004 and 2003, totaled \$166,469 and \$162,900, respectively.

A plant acquisition adjustment was created when Graham County Utilities, Inc. purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The corporation has elected to amortize these costs over a 25 year period. The annual charge to expense is \$16,619 in the gas department and \$24,407 in the water department.



GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

The plant acquisition costs and related provision for amortization at September 30, 2004, are summarized as follows:

	<u>Gas Department</u>	<u>Water Department</u>
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 232,671	\$ 341,694
Current Year	16,619	24,407
	<u>\$ 249,290</u>	<u>\$ 366,101</u>
Unamortized Adjustment	<u>\$ 166,194</u>	<u>\$ 244,067</u>

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>
CFC		
Capital Term Certificates	\$ 181,168	\$ 189,245
Patronage Capital	90,502	93,101
Memberships	1,000	1,000
	<u>\$ 272,670</u>	<u>\$ 283,346</u>
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 5,348	\$ 5,348
	<u>\$ 278,018</u>	<u>\$ 288,694</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

5. Deferred Charges

Deferred charges consisted of the following:

	September 30,	
	2004	2003
Gas Department		
Rate Filing Costs	\$ 1,535	\$ 2,146
Clearing Accounts		1,571
Unamortized Debt Expense	34,485	38,353
	<u>\$ 36,020</u>	<u>\$ 42,070</u>
Water Department		
Unamortized Debt Expense	\$ 30,582	\$ 34,011
Clearing Accounts		760
	<u>\$ 30,582</u>	<u>\$ 34,771</u>
	<u>\$ 66,602</u>	<u>\$ 76,841</u>

During 1998, the cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2004 and 2003, is \$7,297.

6. Memberships

Memberships are comprised of the following:

	September 30,	
	2004	2003
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 5,000
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	19,495	18,895
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	4,665	4,665
	<u>\$ 29,160</u>	<u>\$ 28,560</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 23,321	\$ (694)	\$ 22,627
1990	(30,746)	2,845	(27,901)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,078	(59,859)
1994	(46,268)	26,494	(19,774)
1995	(172,043)	(28,602)	(200,645)
1996	(68,293)	(3,410)	(71,703)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
Nine months of 2004	26,500	(1,559)	24,941
	\$ (112,194)	\$ 192,206	\$ 80,012
Patronage Capital Retired		(82,035)	(82,035)
	\$ (112,194)	\$ 110,171	\$ (2,023)

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Due to prior period net deficits, no patronage capital has been allocated from operations in the gas department. Patronage capital will be allocated when all deficits have been recovered. During the year ended September 30, 2004 and 2003, no retirements of patronage capital were made.

Under the mortgage agreement with CFC, until the equities or margins equal or exceed 30% of the total assets of the cooperative, the return to patrons of capital contributed by them is limited.

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

8. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC maturing September 30, 2014, June 30, 2026, and September 30, 2031:

	September 30,	
	2004	2003
Fixed - 7.10%	\$ 1,090,547	\$ 1,163,108
Variable (3.70% in 2004, 2.95% in 2003)	366,713	388,638
Fixed - 7.45%	492,999	501,812
Fixed - 4.30%	398,052	
	<u>\$ 2,348,311</u>	<u>\$ 2,053,558</u>
Less: Current Maturities	<u>119,200</u>	<u>101,100</u>
	<u>\$ 2,229,111</u>	<u>\$ 1,952,458</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$64,900. As of September 30, 2004, annual maturities of long-term debt due CFC for the next five years is as follows:

2005	\$ 119,200
2006	126,900
2007	135,100
2008	143,900
2009	153,200

The mortgages contain requirements requiring certain financial ratios to be maintained or exceeded. These requirements became effective during the calendar year ending December 31, 1992.

9. USDA Rural Development Note Payable

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2004	2003
5% Note Maturing March 2032	\$ 155,770	\$ 158,350
4.5% Note Maturing August 2035	269,989	273,943
4.5% Note Maturing July 2040	92,080	93,096
	<u>\$ 517,839</u>	<u>\$ 525,389</u>
Less: Current Maturities	<u>7,900</u>	<u>7,500</u>
	<u>\$ 509,939</u>	<u>\$ 517,889</u>

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Principal and interest installments on the above notes are due monthly in amounts of \$2,652. As of September 30, 2004, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2005	\$ 7,900
2006	8,300
2007	8,700
2008	9,100
2009	9,500

**10. Graham County Electric Note Payable**

During 1998, the cooperative financed an accounts payable due to Graham County Electric Cooperative. The total cost of \$500,000 is to be paid over 10 years in monthly payments including interest at the rate of 7.4%. The balance outstanding at September 30, 2004, is \$195,609. Annual maturities due to Graham County Electric Cooperative for the next five years are as follows:

2005	\$ 31,065
2006	33,444
2007	36,004
2008	38,761
2009	41,728

**11. AEPCO Note Payable**

During 1999, the cooperative obtained a zero interest loan from the Arizona Electric Power Cooperative, Inc. through the Rural Economic Development Program of RUS. The total loan was \$220,000, payable in monthly payments of \$1,833 for 120 months. The balance at September 30, 2004, is \$135,667. Annual maturities due to AEPCO for the next five years are as follows:

2005	\$ 23,833
2006	22,000
2007	22,000
2008	22,000
2009	22,000

**12. Related Parties**

Graham County Utilities, Inc. (GCU) is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to GCU under an operating and management agreement signed by both parties on June 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by GCU to CFC.

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**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

Intercompany balances between the two cooperatives are summarized as follows:

	September 30,	
	<u>2004</u>	<u>2003</u>
Graham County Utilities, Inc.		
Accounts Receivable (Payable)	\$ 178,723	\$ 153,943
Note Payable	<u>(195,609)</u>	<u>(224,465)</u>
Net Due to Affiliated Cooperative	<u>\$ (16,886)</u>	<u>\$ (70,522)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable (Payable)	\$ (178,723)	\$ (153,943)
Note Receivable	<u>195,609</u>	<u>224,465</u>
Net Due from Affiliated Cooperative	<u>\$ 16,886</u>	<u>\$ 70,522</u>

**13. Litigation**

The cooperative is not involved in any litigation that would materially affect the financial statements.

**ACCOMPANYING INFORMATION**

**INDEPENDENT AUDITORS' REPORT ON  
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report was made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 15 through 20 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 28, 2004



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**GRAHAM COUNTY UTILITIES, INC.**  
**GAS DEPARTMENT**

Schedule 1

**BALANCE SHEET**  
**SEPTEMBER 30, 2004 AND 2003**

**ASSETS**

	September 30,	
	2004	2003
<b>UTILITY PLANT</b>		
Plant in Service	\$ 2,832,033	\$ 2,732,344
Construction Work in Progress	1,782	(2,140)
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 3,249,299</u>	<u>\$ 3,145,688</u>
Less: Accumulated Provision for Depreciation and Amortization	1,639,430	1,535,791
	<u>\$ 1,609,869</u>	<u>\$ 1,609,897</u>
<b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 150,818	\$ 156,076
<b>CURRENT ASSETS</b>		
Accounts Receivable (Less allowance for uncollectibles of \$21,324 in 2004 and \$13,802 in 2003)	\$ 55,376	\$ 54,948
Accounts Receivable - GCEC	2,535	
Materials and Supplies	67,202	62,905
Other Current and Accrued Assets	28,726	37,675
Total Current Assets	<u>\$ 153,839</u>	<u>\$ 155,528</u>
Deferred Charges	\$ 36,021	\$ 42,070
	<u>\$ 1,950,547</u>	<u>\$ 1,963,571</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 26,660	\$ 26,060
Accumulated Deficits	(112,194)	(143,226)
	<u>\$ (85,534)</u>	<u>\$ (117,166)</u>
<b>LONG -TERM DEBT</b>		
Note Payable - Graham County Electric Cooperative	\$ 164,544	\$ 195,565
CFC Mortgage Notes Less Current Maturities	1,460,389	1,133,448
	<u>\$ 1,624,933</u>	<u>\$ 1,329,013</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 100,965	\$ 84,200
Accounts Payable - Other	85,897	66,014
Accounts Payable - Graham County Electric Cooperative		12,769
Accounts Payable - Water Department	30,473	7,283
Overbilled Consumers Fuel Cost	76,535	466,242
Accrued Taxes	43,692	43,495
Customers' Deposits and Prepayments	63,370	62,145
Accrued Interest	10,216	9,576
Total Current Liabilities	<u>\$ 411,148</u>	<u>\$ 751,724</u>
	<u>\$ 1,950,547</u>	<u>\$ 1,963,571</u>

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 2

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,		Increase (Decrease)
	2004	2003	
<b>OPERATING REVENUES</b>			
Residential	\$ 1,785,736	\$ 1,935,383	\$ (149,647)
Irrigation	24,286	22,279	2,007
Commercial and Industrial	513,134	555,590	(42,456)
Fuel Cost Overbilled	22,230	(387,328)	409,558
Other Operating Revenues	391,697	23,870	367,827
Total Operating Revenues	<u>\$ 2,737,083</u>	<u>\$ 2,149,794</u>	<u>\$ 587,289</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 1,629,487	\$ 1,064,964	\$ 564,523
Operations	233,323	236,280	(2,957)
Maintenance	196,831	235,845	(39,014)
Customer Accounts	204,843	200,011	4,832
Administrative and General	236,883	196,487	40,396
Depreciation and Amortization	103,638	101,411	2,227
Other Interest	26,536	33,368	(6,832)
Total Operating Expenses	<u>\$ 2,631,541</u>	<u>\$ 2,068,366</u>	<u>\$ 563,175</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	<u>\$ 105,542</u>	<u>\$ 81,428</u>	<u>\$ 24,114</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>84,185</u>	<u>80,085</u>	<u>4,100</u>
<b>OPERATING MARGINS - After Fixed Charges</b>	<u>\$ 21,357</u>	<u>\$ 1,343</u>	<u>\$ 20,014</u>
Capital Credits	<u>6,581</u>	<u>6,709</u>	<u>(128)</u>
<b>NET OPERATING MARGINS</b>	<u>\$ 27,938</u>	<u>\$ 8,052</u>	<u>\$ 19,886</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>3,094</u>	<u>734</u>	<u>2,360</u>
<b>NET MARGINS</b>	<u>\$ 31,032</u>	<u>\$ 8,786</u>	<u>\$ 22,246</u>
<b>ACCUMULATED DEFICITS - BEGINNING OF YEAR</b>	<u>(143,226)</u>	<u>(152,012)</u>	
<b>ACCUMULATED DEFICITS - END OF YEAR</b>	<u>\$ (112,194)</u>	<u>\$ (143,226)</u>	

GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT

Schedule 3

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	September 30,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 31,032	\$ 8,786
Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	103,638	101,714
Capital Credits - Noncash	(6,581)	(6,709)
Deferred Charges	6,049	5,157
Overbilled Fuel Cost - Net	(389,707)	390,657
Accounts Receivable	(428)	30,675
Inventories and Other Current Assets	4,652	(9,372)
Payables and Accrued Expenses	21,946	7,131
Net Payments to - Water Department	23,190	(114,094)
Net Payments to - Graham County Electric Cooperative	(15,304)	(206,275)
Net Cash Provided by (Used in) Operating Activities	\$ (221,513)	\$ 207,670
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (103,611)	\$ (142,489)
Salvage Value of Plant Retired		4,070
Investments in Associated Organizations	11,839	9,447
Net Cash Used in Investing Activities	\$ (91,772)	\$ (128,972)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances from CFC	\$ 400,000	\$
Payments on Long-Term Debt - CFC	(58,459)	(52,464)
Payments on Long-Term Debt - Graham County Electric Cooperative	(28,856)	(26,804)
Memberships	600	570
Net Cash Provided by (Used in) Financing Activities	\$ 313,285	\$ (78,698)
<b>INCREASE (DECREASE) IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	0	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid during the year for:		
Interest on Long-Term Debt	\$ 99,830	\$ 97,782
Federal Income Tax	\$ 0	\$ 0

GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT

Schedule 4

BALANCE SHEET  
SEPTEMBER 30, 2004 AND 2003

ASSETS

	September 30,	
	2004	2003
UTILITY PLANT AT COST		
Water Plant in Service	\$ 1,938,655	\$ 1,918,033
Construction Work in Progress	1,651	(5,292)
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 2,550,474</u>	<u>\$ 2,522,909</u>
Less: Accumulated Provision for Depreciation and Amortization	1,350,502	1,246,646
	<u>\$ 1,199,972</u>	<u>\$ 1,276,263</u>
OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 127,200	\$ 132,618
CURRENT ASSETS		
Cash - General	\$ 18,908	\$ 18,753
Accounts Receivable - Customers (Less allowance for uncollectibles of \$7,853 in 2004 and \$6,017 in 2003)	11,601	14,231
Accounts Receivable - Gas Department	30,473	7,283
Accounts Receivable - Graham County Electric Cooperative	176,188	166,712
Materials and Supplies	28,094	32,939
Other Current and Accrued Assets	9,561	12,558
Total Current Assets	<u>\$ 274,825</u>	<u>\$ 252,476</u>
DEFERRED CHARGES	\$ 30,581	\$ 34,771
	<u>\$ 1,632,578</u>	<u>\$ 1,696,128</u>

EQUITIES AND LIABILITIES

EQUITY		
Memberships	\$ 2,500	\$ 2,500
Accumulated Margins	110,171	104,844
	<u>\$ 112,671</u>	<u>\$ 107,344</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	\$ 768,722	\$ 819,010
AEPKO Notes Payable Less Current Maturities	111,834	133,833
USDA Rural Development Notes Less Current Maturities	509,939	517,889
	<u>\$ 1,390,495</u>	<u>\$ 1,470,732</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 81,033	\$ 75,300
Accounts Payable - Other	19,749	11,007
Accrued Taxes	18,686	20,585
Customers' Deposits and Prepayments	7,835	9,075
Accrued Interest	2,109	2,085
Total Current Liabilities	<u>\$ 129,412</u>	<u>\$ 118,052</u>
	<u>\$ 1,632,578</u>	<u>\$ 1,696,128</u>

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 5**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	September 30,		Increase (Decrease)
	2004	2003	
<b>OPERATING REVENUES</b>			
Residential	\$ 474,991	\$ 468,745	\$ 6,246
Commercial and Industrial	50,980	54,995	(4,015)
Sales for Resale	29,053	28,077	976
Other Operating Revenues	2,130	2,280	(150)
Total Operating Revenues	<u>\$ 557,154</u>	<u>\$ 554,097</u>	<u>\$ 3,057</u>
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 33,811	\$ 15,021	\$ 18,790
Operations	66,060	58,328	7,732
Maintenance	151,936	144,722	7,214
Customer Accounts	42,753	39,851	2,902
Administrative and General	81,939	70,197	11,742
Depreciation and Amortization	103,856	102,515	1,341
Other Interest	3,902	4,037	(135)
Total Operating Expenses	<u>\$ 484,257</u>	<u>\$ 434,671</u>	<u>\$ 49,586</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>	<u>\$ 72,897</u>	<u>\$ 119,426</u>	<u>\$ (46,529)</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>77,506</u>	<u>81,384</u>	<u>(3,878)</u>
<b>OPERATING MARGINS (DEFICIT) - After Fixed Charges</b>	<u>\$ (4,609)</u>	<u>\$ 38,042</u>	<u>\$ (42,651)</u>
Capital Credits	<u>5,836</u>	<u>7,369</u>	<u>(1,533)</u>
<b>NET OPERATING MARGINS (DEFICIT)</b>	<u>\$ 1,227</u>	<u>\$ 45,411</u>	<u>\$ (44,184)</u>
<b>NONOPERATING MARGINS</b>			
Interest	<u>4,100</u>	<u>4,921</u>	<u>(821)</u>
<b>NET MARGINS</b>	<u>\$ 5,327</u>	<u>\$ 50,332</u>	<u>\$ (45,005)</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>104,844</u>	<u>54,512</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	<u>\$ 110,171</u>	<u>\$ 104,844</u>	

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 6**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003**

	September 30,	
	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margins	\$ 5,327	\$ 50,332
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	103,857	102,515
Capital Credits - Noncash	(5,836)	(7,369)
Deferred Charges	4,190	2,670
Accounts Receivable	2,630	3,666
Inventories and Other Current Assets	7,842	(4,772)
Payables and Accrued Expenses	5,627	2,433
Net Advances from/(to) - Gas Department	(23,190)	114,094
Net Payments from/(to) - Graham County Electric Cooperative	(9,476)	(165,775)
Net Cash Provided by Operating Activities	<u>\$ 90,971</u>	<u>\$ 97,794</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (27,564)	\$ (34,921)
Investments in Associated Organizations	11,254	9,856
Net Cash Used in Investing Activities	<u>\$ (16,310)</u>	<u>\$ (25,065)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Note Payable to AEPCO	\$ (20,168)	\$ (22,000)
Payments on Long-Term Debt to CFC	(46,789)	(43,435)
Payments on Long-Term Debt to USDA	(7,549)	(7,206)
Net Cash Used in Financing Activities	<u>\$ (74,506)</u>	<u>\$ (72,641)</u>
<b>INCREASE IN CASH</b>	\$ 155	\$ 88
<b>CASH - BEGINNING OF YEAR</b>	<u>18,753</u>	<u>18,665</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 18,908</u></u>	<u><u>\$ 18,753</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid during the year for:		
Interest on Long-Term Debt	\$ 77,508	\$ 81,384
Federal Income Tax	<u>\$ 0</u>	<u>\$ 0</u>

## COMPLIANCE AND INTERNAL CONTROL SECTION

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING  
AUDITS OF CFC BORROWERS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2004, and have issued our report thereon dated October 28, 2004.

In connection with our audits nothing came to our attention that caused us to believe that the cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 28, 2004



**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

CERTIFIED PUBLIC ACCOUNTANTS

1623 - 10TH STREET

LUBBOCK, TEXAS 79401-2685

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited the financial statements of Graham County Utilities, Inc. as of and for the year ended September 30, 2004, and have issued our report thereon dated October 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graham County Utilities, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Boards of Directors and management of Graham County Utilities, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss L.L.P.*

Certified Public Accountants

October 28, 2004